Market outlook: lower returns, more volatility

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We must remember that we've had a lot of good years, and our analysis suggests that those future returns may be much more modest than they've been in the last 10 years.

So, if you go to the fixed income market, the basic return from government bonds or Treasuries at this stage tends to be very similar to their current yield. So, if you buy a bond that's yielding 2.8%, I can be fairly confident in predicting to you that the return you're going to get over 10 years is going to be 2.8%. There's no great magic to that. And particularly when interest rates are rising, it's highly unlikely that you would get more than that.

On equities, it depends. But if you believe the cycle can be extended on another few years and corporate earnings will continue to grow, then there is a positive real return to be had from investing in equities, but it will not, in my opinion, be at the same level we've had for the last 10 years.

So, you link together two or three different topics. Will the return be as high? No. Will it be positive? Yes. But will there be more volatility in getting there? Yes.

Can you handle that increased volatility? And that's a behavioral question, not a financial question. If you can take higher volatility because you feel confident you'll get a real return over time, over three to five years, then you should stay invested in equities, for example. But remember, it will be a lower return and it will be higher volatility than we've had in the past.
