

My title comes from [Jeremy Grantham's recent CNBC interview](#). This remark occurs in a discussion about likely returns from the U.S. stock market. Everyone at Grantham's firm, Grantham, Mayo, van Otterloo (GMO), agrees that over the next two decades stocks will deliver around 2% after-inflation or "real" returns, says Grantham himself. Traditionally, the market has delivered 6%-7% annualized real returns, but trying to achieve that now will be like trying to draw blood out of a stone. Investors hoping for the historical 6%-7% are bound to be disappointed.

**The reason for Grantham's pessimism is simple -- P/E ratios are high.** Grantham uses the Shiller PE (*current price of the S&P 500 Index relative to the underlying constituents' past 10-year average real earnings*). The long term average of that metric is around 16, but over the past quarter century it has been over 20. But Grantham doesn't think the average will return to 16 soon or in a way that value investors want. It will likely take around two decades instead of a more typical 7-year cycle. And, in a way, that's more painful than having a market crash. A crash amounts to a valuation re-set; prices get cheap, and the opportunity to invest presents itself to those with courage. But a slow movement from a Shiller PE of 30 (where it sits now) to 16 is a real problem for long term investors who won't get a good opportunity for returns for a generation.

**Besides expensive valuations, the economic cycle will not be in investors' favor. Grantham thinks recent growth numbers reflect a one-time bump of sidelined workers getting back into the labor market from the time of the financial crisis.** That increase has produced an artificial percentage point of growth in recent years, Grantham estimates, which means the U.S. isn't growing at, say, 2.5%. Instead it's growing at more like 1.5%. That will be apparent, in Grantham's opinion, as the last workers who were frightened out the labor market after the crisis re-enter. Perhaps that game of re-entry can persist for a few more years, Grantham speculates, but it's not a permanent feature of the economy. When it ceases, growth will suffer.

**Moreover, population growth in the U.S. is declining. We need a 2.1 fertility rate to keep growing, and the U.S. has a 1.76 fertility rate.** Also, the fertility rate is below that in every other developed country. The population growth rate in the developed world "has gone to hell," says Grantham. Only emerging markets countries present the prospect of stronger population growth. Besides a growing population in emerging markets, Grantham is also impressed with China's emphasis on engineering and science education. China is beginning to dominate Artificial Intelligence and green energy, for example. India isn't far behind, and, when pressed to single out a country that might be the single best investment in the emerging markets space, Grantham singled out India. Even if Grantham is uncomfortable making a specific country call, all of this means he thinks emerging markets are the future for equity investors. It's a given, however, that emerging markets investors will have to endure volatility.

Grantham is less keen on Europe. Population growth is worse there than in the U.S., and the recent problems with immigration will only worsen, stressing the EU considerably. And a weakened EU grants more opportunity to China and Russia to misbehave. It also increases uncertainty. Brexit looks like it might be delayed, and when it's delayed it looks like the odds of overturning it might increase somewhat. Still, Grantham provides no guarantees regarding the country of his birth.

**While population growth -- or lack thereof -- present problems for the economy, at least it's beneficial for the planet.** Grantham has devoted time and resources to combat global warming

and harm to the environment. Grantham proudly drives a Tesla, but noted that, as a value investor, he wasn't interested in the company's stock. He did allow that the stock could be successful, as Amazon's has been.

The message investors should take from Grantham's remarks is that stock returns in the developed world will be low for the next decade and possibly longer. That means you must increase your savings rate to meet your retirement and other goals. The market probably won't do the heavy lifting that it's done in the past.