

OMIGSA Comment – Warren Jervis, Sector Head: Small Caps

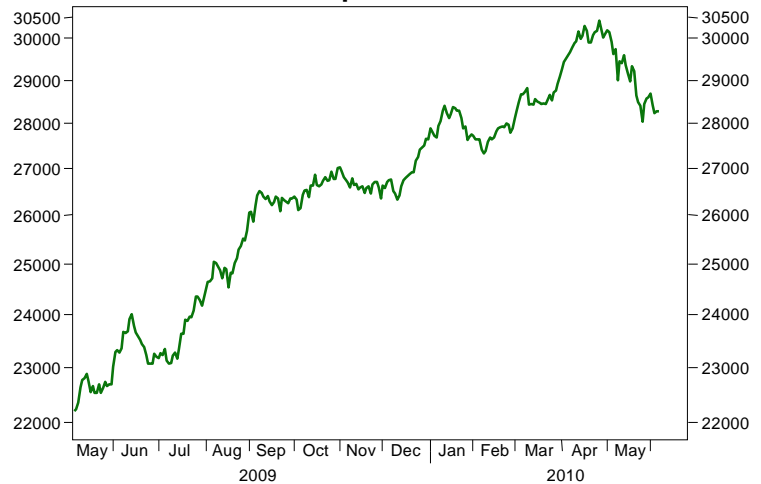
Small Caps – next year’s numbers looking too bullish



The Small Cap and Mid-Cap indices returned -4.4% and -1.5%, respectively, for the month ended 31 May 2010, outperforming the FTSE/JSE Top 40 Index which returned -5.7% over the same period. The outperformance of shares in the small and mid-cap sectors of the market continues as concerns over the strength of the global recovery resurface.

The market was mainly impacted by ratings downgrades across Europe. Europe’s woes and increased regulatory concerns caused fund managers to take a more risk-averse stance in May. The strength and sustainability of the economic recovery, given a slowing China and a highly indebted Europe, is a major issue.

FTSE / JSE Small Cap Index



Source: INET

Earnings growth will still recover this year, but next year’s numbers are looking too bullish. Companies still report unclear and cautious prospects statements. Some of the smaller companies continue to report very poor operating profit numbers and in many cases bottom-line losses. Markets will look further ahead, but they are still fairly nervous given the concerns over the economic recovery.

28 May - 03 June 2010 in a nutshell

Global: Most global stock markets were a mixed bag this week, on lacklustre macro-economic data from the US which left investors looking for direction. The S&P 500 in the US was flat at 0.00%, while the European market stocks were 0.57% higher and emerging market shares rose 2.32%.

South Africa: The local market moved lower this week, with the FTSE/JSE All Share sliding 1.14% despite gains in emerging markets. The winner was Listed Property, marginally climbing 0.29%.

Markets and Economics - Highlights

Global

- Strong US manufacturing data provided further evidence that a domestic recovery remains relatively unaffected by problems in the Euro-zone. The Institute for Supply Management’s manufacturing survey index fell less than expected by economists, to 59.7 points in May, just off the six-year-high mark reached in April.
- Annual consumer inflation rose to 1.6% last month across the 16 countries that share the euro currency, up from 1.5% in April. The figures produced by the EU’s Eurostat data agency show that inflation in the common currency area is at its highest since December 2008.
- India’s quarterly economic growth (GDP rose 8.6% in the first quarter from a year earlier) accelerated to its fastest rate in six months, adding pressure on the central bank to raise interest rates even as Europe’s sovereign-debt crunch threatens the global recovery.

South Africa

- South Africa's purchasing managers' index (PMI) fell for the third consecutive month in May, suggesting the pace of recovery is losing some steam. The PMI was down 5.1 points last month, on a seasonally adjusted basis, from 51.1 points last month, a survey by the Bureau for Economic Research said.
- South Africa's trade account swung back into deficit in April, recording a shortfall of R1.9 billion compared with a R460 million surplus in March, the SA Revenue Services (Sars) said.
- SA's gold production suffered a quarterly fall of 15% in the first three months of this year, as the country's ageing gold mines proved unable to capitalize on near-record prices for the metal, said a newspaper report.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 03.06.2010	% Performance Return
United States	S & P 500 (US\$)	0.00%	1,103	-1.09%
Europe	Euro Stoxx 50 (Euro)	0.57%	2,634	-11.20%
Emerging Mkts	MSCI Emerg Mkts (US\$)	2.32%	925	-6.25%
South Africa	FTSE/JSE All Share (ZAR)	-1.14%	27,136	-1.92%
Global	MSCI (US\$)	0.55%	1,091	-6.59%
ZAR/Dollar	Rand/US \$ (ZAR)	1.19%	7.66	3.65%
ZAR/Pound	Rand/£ (ZAR)	1.63%	11.21	-5.48%
ZAR/Euro	Rand/Euro (ZAR)	-0.32%	9.33	-11.06%
JSE	Industrials	-0.92%	25,340	0.38%
JSE	Financials	-0.31%	19,950	3.23%
JSE	Resources 20	-1.68%	47,637	-6.75%
JSE	Small Companies	-1.01%	28,282	1.42%
JSE	Listed Property	0.29%	340	5.26%
JSE	RAFI@ ALSI	-1.22%	5,684	-1.18%
JSE	RAFI@ 40	-1.39%	5,463	-2.31%
JSE	SWIX	-1.56%	5,684	-0.89%

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