

OMIGSA Comment – Brian Pyle, Sector Head: Small Caps

Small Caps stand to benefit from a low interest rate environment



The small cap and mid-cap indices returned 4.8% and 4.9% respectively in May, while the FTSE/JSE Top 40 Index increased by 11.3%. While market commentators hypothesise around whether this is the start of a boom in the market (green shoots?) or just a bear market rally, we continue to focus on individual companies and the prospects for each one of them. Many companies are reporting results showing that times are tough, while the prospects remain very uncertain and muted. The continued fall in interest rates is normally good for small and mid-caps relative to large.

FTSE/JSE AFRICA SMALL CAP [Close]



Within the universe of shares that this fund can play is the Alt-X Index. This index has returned -62% in the last year, while small caps have decreased 15.7%. We have a significant underweight position in the Alt X as a result of participating in fewer of the new listings in the 2007 Building and Construction boom. Significant resources are being dedicated to re-assessing many of these companies, now that they are returning to normalised earnings, growth and P:E multiples

29 May - 04 June 2009 in a nutshell

Global: There is no 'let up' in the upward trend of most bourses around the world on better-than-expected housing data from the US. The S&P 500 in the US surged 3.86% while the European market stocks rose 1.39% and emerging market shares climbed 2.62%.

South Africa: The local market followed suit, with the FTSE/All Share Index ending the week 2.46% stronger. The winners were resources, which rallied 3.17%, and the loser was the Listed Property sector which slipped 1.01%.

Markets and Economics - Highlights

Global

- General Motors (GM) filed for bankruptcy, forcing the 100-year old car maker once seen as a symbol of American economic might and dynamism into a new and uncertain era of government ownership.
- The Eurozone gross domestic product would contract between 5.1% and 4.1% this year, the European Central Bank (ECB) said. European Union (EU) unemployment increased to 9.2% from 8.9% in March, the highest since September 1999, said the EU statistics office.
- The Morgan Stanley Capital International (MSCI) emerging markets index climbed 55% since the end of February, the steepest three-month rally since its inception in 1987, as higher commodity prices boosted the earnings outlook for companies in developing nations.

South Africa

- Double-digit food inflation will ease in the next two to three months as benefits of lower farm prices were starting to feed through to supermarket shelves, said an economist with the National Agricultural Marketing Council.
- New vehicle sales plunged 34.7% y/y last month to 25 819 units and new passenger car sales dropped 27.2% to 16 505, said the National Association of Automobile Manufacturers of SA (Naamsa)
- The median house price index decreased 4.1% y/y last month, following average declines of 2.7% in the first four months of the year, said a local bank.
- The rand slid slightly after Reserve Bank Tito Mboweni remarked that its continued rally posed a threat to the country's manufacturing sector.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 04.06.2009	% Performance Return
United States	S & P 500 (US\$)	3.86%	942	4.32%
Europe	Euro Stoxx 50 (Euro)	1.39%	2,487	1.47%
Emerging Mkts	MSCI Emerg Mkts (US\$)	2.62%	782	37.92%
South Africa	FTSE/JSE All Share (ZAR)	2.46%	22,863	6.30%
Global	MSCI (US\$)	3.25%	986	7.17%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.25%	7.98	-16.26%
ZAR/Pound	Rand/£ (ZAR)	0.94%	12.88	-6.12%
ZAR/Euro	Rand/Euro (ZAR)	1.16%	11.30	-14.13%
JSE	Industrials	2.27%	21,035	-2.14%
JSE	Financials	1.36%	15,678	-0.64%
JSE	Resources 20	3.17%	42,993	11.64%
JSE	Small Companies	2.97%	23,359	2.85%
JSE	Listed Property	-1.01%	293	-5.48%
JSE	RAFI® ALSI	2.41%	4,626	7.63%
JSE	RAFI® 40	2.50%	4,463	4.72%
JSE	SWIX	2.19%	4,798	5.45%

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