

OMIGSA Comment – Brian Pyle, Head: Investment Research

Market surprises, guarded outlook and favoured sectors



The biggest market surprise for me this year has been the extent of the recovery since March. Given the global turmoil and the absence of an earnings recovery, and therefore a ratings recovery, I believe that companies are going to have muted growth for 2009/2010. With this in mind, we need to get used to single-digit growth and not expect the high growth experienced in the years leading up to the market correction.

Despite the global turmoil, our resources shares have continued to defy the markets and we're now also seeing a recovery in industrial companies.

Rising share prices in both these sectors could have been driven by foreign investors' renewed risk appetite, with resources in particular being driven by China's insatiable demand.



In terms of my expectations in the next six to 12 months, I am cautious regarding the current share-price levels, as I don't see massive earnings growth from these levels. Given my guarded outlook, I prefer to invest in companies with strong balance sheets where we will continue to get strong dividends. I am wary of building and construction shares. These shares have experienced a lot of foreign investment, pushing their prices beyond, what I believe, is fair value.

Investors favour the building and construction sector because of the planned capital expenditure by Eskom. But I think this expenditure will be spread over a much longer period than what the market is pricing in. As this unfolds, investors will become disillusioned by the lack of short-term growth and when prices fall, that could be a good time to buy.

We still favour the financial sector, but it is no longer cheap – the easy money has been made. However, these shares are more defensive and probably "less-expensive" than many others.

30 Oct - 05 Nov 2009 in a nutshell

Global: Most global bourses were a mixed bag this week. The S&P 500 in the US was flat at 0.09% and the European market shares gave up 1.13% and emerging market stocks were slightly up at 0.98%.

South Africa: The local market was in the red this week, with the FTSE/All Share Index (ALSI) shedding 2.45%. The biggest losers were financials, plunging 4.14%.

Markets and Economics - Highlights

Global

- Corporate America achieved remarkable productivity gains in the third quarter, with output per hour worked up 9.5% at an annualised rate, its fastest increase in six years, new data revealed. Meanwhile, other data showed new unemployment claims fell to their lowest level since January 2009 in the past week, giving hope that job losses may be easing.
- The European Central Bank (ECB) left its main interest rate unchanged at a record low 1% amid signs that the 16-nation euro zone is slowly emerging from recession. The Bank of England (BOE)

also left its lending rate at 0.5%, but said it would pour another R319bn into the economy to get the UK out of recession.

- China's manufacturing sector expanded for the eighth consecutive month in October, pointing to further signs that the recovering economy is on firmer ground, according to a survey by an industry group in China.

South Africa

- SA's ballooning budget deficit did not pose an immediate threat to its credit rating, but the political will to restore fiscal discipline when the economy recovered could prove challenging, rating agency Standard and Poor's (S&P) said.
- Prospects of recovering the almost 1 million jobs lost since January in the next 18 months are bleak, said Trade and Industry Minister Rob Davies.
- South Africa recorded a trade surplus of R3.87bn in September 2009 as the local recession drove import down, while economic recovery in overseas markets buoyed exports, data from the South African Revenue Services (SARS) showed.
- Confidence in SA's financial markets increased again in the third quarter, boosted by improved global sentiment and rising commodity prices. The Maxim-ETM investor confidence index climbed to 84.4 points in the third quarter from 76.6 points and by 22.1 points from a year ago.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 05.11.2009	% Performance Return
United States	S & P 500 (US\$)	0.09%	1,067	18.16%
Europe	Euro Stoxx 50 (Euro)	-1.13%	2,793	13.95%
Emerging Mkts	MSCI Emerg Mkts (US\$)	0.98%	930	64.02%
South Africa	FTSE/JSE All Share (ZAR)	-2.45%	25,898	20.41%
Global	MSCI (US\$)	0.00%	1,128	22.61%
ZAR/Dollar	Rand/US \$ (ZAR)	-2.07%	7.57	-20.57%
ZAR/Pound	Rand/£ (ZAR)	-1.72%	12.55	-8.53%
ZAR/Euro	Rand/Euro (ZAR)	-1.49%	11.26	-14.44%
JSE	Industrials	-2.80%	24,739	15.09%
JSE	Financials	-4.14%	18,456	16.97%
JSE	Resources 20	-1.96%	46,924	21.85%
JSE	Small Companies	-1.20%	26,696	17.55%
JSE	Listed Property	-0.31%	319	2.90%
JSE	RAFI® ALSI	-2.74%	5,422	26.15%
JSE	RAFI® 40	-2.78%	5,239	22.92%
JSE	SWIX	-2.75%	5,377	18.18%

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