

Omigsa Comment – Warren Jervis, Sector Head: Small Caps

Are Small Caps back in favour?



The Small Cap and Mid-Cap indices returned 1.7% and 2.8%, respectively, in September, outperforming the FTSE/JSE Top 40 Index which decreased by 0.2% during the month.

Importantly, the sustainability of the economic recovery will become more convincing as more positive economic data emerges. Global markets have had a very strong bounce and have discounted a fair amount of this recovery already. The strength of the recovering earnings growth will determine how the markets react over the next six months. Many companies reporting results in the quarter to September 2009 are showing

that the last six months have been very tough and that the trading conditions remain difficult. Turnover numbers have not been that badly hit, but margins are under pressure. Current trading is starting to indicate that the top line is also now under some pressure and the majority of prospect statements remain very cautious. However, the risk appetite of investors appears to be picking up as the global momentum starts to improve. The Small Cap stocks have rallied nicely off a low base and are still at a slight discount to large caps. Any discount between 10-15% to the large caps stocks will be about right. In addition, in the current stronger rand environment, you would expect the small caps to outperform, but the rand will be subject shocks at these levels.

FTSE / JSE Africa Small Cap



Source: INET

02 - 08 Oct 2009 in a nutshell

Global: Positive investor sentiment about the recovery of the global economy returned to the markets, powering up most global bourses this week. The S&P 500 in the US shot up 3.40% while their European peers gained 2.78% and emerging market stocks climbed 3.18%.

South Africa: Strong commodity prices, especially the gold price, and the weaker dollar sent the local market in the black with the FTSE/JSE All Share Index (ALSI) ending the week 2.25% stronger. As expected, the winners were resources which surged 4.83%, and the losers of the week were financials, giving up 0.10%.

Markets and Economics - Highlights

Global

- The credit squeeze may be abating in the financial markets but there is no sign of a revival in the flow of credit to US consumers. On the contrary: the latest data from the Federal Reserve show that consumer credit declined at an annual rate of 10.4% in July – the fastest rate since the crisis began two years ago.
- European Central Bank (ECB) president Jean-Claude Trichet cautioned against hope of a speedy economic recovery after the central bank kept its benchmark interest rate at a record-low 1%. The euro zone's economy shrank by a revised 0.2% in the second quarter of the year, and analysts expect it to have grown 0.3% in the July-September quarter.
- Asian central banks intervened heavily to slow the appreciation of their currencies against the US dollar amid fears their exports could be losing ground against China. The greenback hit a one-year

low against a raft of Southeast Asian currencies, including Thailand, Malaysia and Taiwan, while the Chinese renminbi remains effectively pegged to the US currency. Even Singapore and Hong Kong, both with managed currency regimes, stepped in to buy US dollars.

South Africa

- Factory output fell unexpectedly in August while mining production contracted, highlighting the fragility of a tentative economic recovery. Manufacturing production dived 2.8% month on month, defying forecasts for a 1.3% rise after July's robust 3.3% rise, official data from Stats SA showed.
- The Reserve Bank increased the pace of dollar purchases last month to curb the rand's 27% surge against the dollar this year, boosting foreign currency reserves. Gross reserves increased to \$39.1bn (R291.3bn) from \$38.1bn in August, the central bank said.
- Local business confidence climbed to a 10-month high last month, indicating the economy might be recovering from its first recession in 17 years. The Business Confidence index increased to 85.5 points last month, the highest level since November, and compared with 83 in August.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 08.10.2009	% Performance Return
United States	S & P 500 (US\$)	3.40%	1,065	17.94%
Europe	Euro Stoxx 50 (Euro)	2.78%	2,888	17.83%
Emerging Mkts	MSCI Emerg Mkts (US\$)	3.18%	940	65.78%
South Africa	FTSE/JSE All Share (ZAR)	2.25%	25,528	18.69%
Global	MSCI (US\$)	3.27%	1,138	23.70%
ZAR/Dollar	Rand/US \$ (ZAR)	-4.68%	7.34	-22.98%
ZAR/Pound	Rand/£ (ZAR)	-4.00%	11.77	-14.21%
ZAR/Euro	Rand/Euro (ZAR)	-3.04%	10.85	-17.55%
JSE	Industrials	0.09%	25,142	16.96%
JSE	Financials	-0.10%	18,225	15.50%
JSE	Resources 20	4.83%	45,841	19.04%
JSE	Small Companies	0.00%	26,330	15.94%
JSE	Listed Property	0.63%	319	2.90%
JSE	RAFI® ALSI	1.80%	5,262	22.43%
JSE	RAFI® 40	2.17%	5,087	19.36%
JSE	SWIX	1.41%	5,382	18.29%

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