

OMIGSA Comment – Tracy Brodziak: Head: Equity Strategy

Some counters in the financial sector still present value



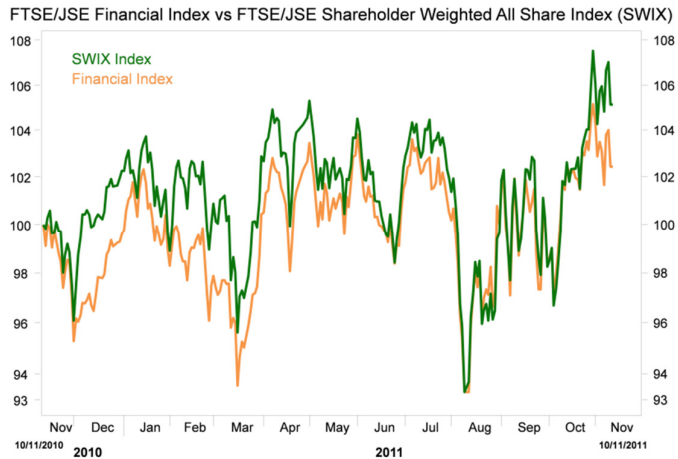
The FTSE/JSE Financial Index had a strong month gaining 5.8%. However, it underperformed the FTSE/JSE Shareholder Weighted All Share Index (SWIX) which was up 7.7% during the month.

Within financials, the Banking Index gained 5.4%, while the life assurance sector gained 7.8%. The strong performance in the life sector was driven by Sanlam and Old Mutual, up 9.6% and 8.6%, respectively.

For the balance of 2011, we expect the banks to continue their focus on costs as revenue growth remains subdued. Capital levels will also be a focus area, with the potential for increased dividends.

Life companies should continue to show an improving trend in lapse-experience and recurring-premium sales, due to improving real household incomes. Cost management will also become an issue in a sector with limited growth prospects.

We expect the financial services sector to benefit from the recovering economy, which will lift operating results in 2011. We believe some counters in the sector still present value, with ratings below historic averages.



4 November – 10 November 2011 in a nutshell

Global: Global markets took a tumble amidst concerns that Italy could be sucked deeper into the current Eurozone debt crisis, prompting investors sell risk assets. The S&P 500 fell 1.70%, and its European counterpart took a heavy knock at 3.96%, while emerging markets also declined 2.06%.

South Africa: Local markets mirrored their global counterparts this week, with many sectors reporting losses. The FTSE/JSE All Share Index gained 0.01%, while the biggest sector winner was resources, up 1.21%. The small companies sector also recorded a positive return of 0.10%.

Markets and Economics – Highlights

Global

- The number of Americans filing applications for unemployment benefits dropped further to 390 000, the lowest level in seven months, according to the Labour Department. This could be a sign that the recovery is encouraging companies to minimise their staff cuts. This was lower than economists' expectations, as the median forecast of economists in a Bloomberg News survey called for 400,000 new claims. Twenty seven states and territories reported a decline in claims, while 26 reported an increase.
- European finance ministers have committed to roll out a rescue fund next month. Greece was ordered to provide written acceptance of bail-out terms in order to win an €8-billion loan instalment by the end of November. Italy has also been put under pressure to fulfill their budget-cut promises. Meanwhile, Italian borrowing costs surged after Prime Minister Silvio Berlusconi's commitment to resign failed to raise optimism about Italy's ability to deliver on long-promised economic reforms. Italian 10-year bond yields shot above the 7% level that is widely deemed unsustainable, reflecting investors' concerns they may not get their money back, a fear that also showed in the cost of insuring against Italian debt default.
- China's industrial output in October grew at its weakest annual pace in a year, while inflation fell sharply to 5.5% in October from September's 6.1%. This is the biggest drop in the annual rate from one month to the next since February 2009, and a further pullback from July's three-year peak of 6.5%. Meanwhile, Asian central banks have started slashing interest rates as the region's export-driven economies shudder at the prospect of a Eurozone on the brink of catastrophe and a floundering US recovery

South Africa

- The South African Reserve Bank (SARB) has elected to leave the benchmark lending rate unchanged for a sixth meeting as a weaker rand boosts prices, making it difficult for policymakers to stimulate an economy threatened by the Eurozone crisis. The repurchase rate remains at its 30-year low of 5.5%. The rand's 17% depreciation against the dollar this year is adding to price pressures and restricting the SARB's ability to boost the country's economic recovery. SARB governor, Gill Marcus, said that inflation, which accelerated to 5.7% in September, will breach the bank's 3% to 6% target range for a "protracted" period in 2012.
- South Africa's government has reached a stalemate as to how to improve the country's growth and reduce the unemployment rate, which is already straining the budget and spooking investors. It was this gloomy picture that prompted Moody's Investors Service Inc. to lower its outlook on South Africa's credit rating from stable to negative. Moody's also attributes this move to rising public wages and political strife which pose a threat to the economy and government finances. It said that it believed political uncertainty would become acute over the next two years, and that the country's debt could be downgraded if the government failed to address mounting social tensions.

Key Indicators:					
Market	Index	Movement for the period		Year to Date	
		%	Index Value @ 10.11.2011	% Performance Return	
United States	S & P 500 (US\$)	-1.70%	1,240	-1.45%	
Europe	Euro Stoxx 50 (Euro)	-3.96%	2,255	-19.26%	
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.06%	954	-17.12%	
South Africa	FTSE/JSE All Share (ZAR)	0.01%	32,217	0.30%	
Global	MSCI (US\$)	-2.31%	1,179	-7.90%	
ZAR/Dollar	Rand/US \$ (ZAR)	1.44%	7.96	20.42%	
ZAR/Pound	Rand/£ (ZAR)	0.87%	12.69	23.08%	
ZAR/Euro	Rand/Euro (ZAR)	-0.09%	10.84	22.62%	
JSE	Industrials	-1.14%	28,068	-7.70%	
JSE	Financials	-0.21%	21,450	-0.91%	
JSE	Resources 20	1.21%	53,866	-4.33%	
JSE	Small Companies	0.10%	32,069	-4.90%	
JSE	Listed Property	-0.14%	388	0.26%	
JSE	RAFI® 40	-0.16%	6,618	-0.56%	
JSE	RAFI® ALSI	-0.05%	6,355	-1.73%	
JSE	SWIX	-0.27%	6,760	0.24%	

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