



**OMIGSA Comment – Brian Pyle, Head: Investment Research (previously Sector Head of Small Caps)**

## Small caps outperform... as risk appetite returns

The small cap and mid-cap indices returned 6.6% and 4.4%, respectively, during August 2009, while the FTSE/JSE Top 40 Index lagged with an increase of 2.9%. The outperformance of shares at the smaller end of the market is reflective of the risk appetite coming back into the market. Many small cap companies reporting results for the period ending June 2009 have released their numbers and, broadly speaking, these results show that trading conditions are tough.



Turnover numbers have not been that badly hit but margins are under pressure, particularly in companies with a high fixed cost base or that were slow to adapt to the change. Most prospect statements remain very cautious. Going forward, we believe that the decreased interest rates will ultimately be very good for small caps relative to the larger companies. This is because of their higher debt levels as well as their ability to grow faster by being able to take on more debt.

### 04 - 10 Sept 2009 in a nutshell

**Global:** Most global bourses rallied amid optimism that the global economy is recovering in the wake of positive economic data from the US. The S&P 500 in the US surged 4.09% while their European peers collected an impressive 4.41% and emerging market shares soared 5.47%.

**South Africa:** The local market cheered the good news from Wall Street with the FTSE/JSE All Share Index rising 2.81%. The winners of the week were resources, climbing 4.37% on higher gold prices.

### Markets and Economics - Highlights

#### Global

- Employers kept Americans' working hours near a record low last month, signalling that economic growth is poised to reward companies with added profits while postponing any recovery in the job market. The average working week held at 33.1 hours, six minutes from the 33 hours in June that was the lowest since records began in 1964, said the Labour Department.
- A survey of manufacturers showed that UK factories' output would decline at the slowest pace in more than a year over the next three months as the economy recovers from recession. An Index of manufacturing output was forecast to rise to minus 2 in the next three months, compared with minus 25 in the third quarter.
- China's passenger car sales surged a record 90% last month, as tax cuts and state subsidies spurred demand, bringing the nation closer to overtaking the US as the world's largest vehicle market, according to a statement by the China Association of Automobile Manufacturers.

## South Africa

- Factory output rebounded in July, defying concerns that the strong rand was hitting exports, and providing tangible evidence that SA's economy might be pulling out of its first recession in 17 years. Manufacturing production fell 13.7% in the year to July – slowing from a 17.2% plunge the previous month, SA statistics data showed.
- The rand hit a new 13-month peak, boosted by rising global risk appetite, higher gold prices and a surge in reserves after a \$2.17bn shot in the arm from the International Monetary Fund (IMF). The currency, at one stage, firmed to R7.57 to the greenback – its strongest level since August last year.
- Capital investment in SA plunged 72%, in value terms, in the first half of this year, as private sector projects were shelved and public spending slowed in response to the recession, a local bank said.
- SA maintained its position in the Global Competitiveness Report, coming in 45<sup>th</sup> out of 133 countries. Crime and theft remain the biggest competitive disadvantage and SA ranks last in the sub-category relating to the business costs of crime and violence. In terms of financial market sophistication, SA was ranked fifth, ahead of the UK and US and up 19 places from last year.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 10.09.2009	% Performance Return
United States	S & P 500 (US\$)	4.09%	1,044	15.61%
Europe	Euro Stoxx 50 (Euro)	4.41%	2,818	14.97%
Emerging Mkts	MSCI Emerg Mkts (US\$)	5.47%	887	56.44%
South Africa	FTSE/JSE All Share (ZAR)	2.81%	25,316	17.70%
Global	MSCI (US\$)	4.79%	1,115	21.20%
ZAR/Dollar	Rand/US \$ (ZAR)	-1.05%	7.55	-20.78%
ZAR/Pound	Rand/£ (ZAR)	0.88%	12.58	-8.31%
ZAR/Euro	Rand/Euro (ZAR)	1.19%	11.01	-16.34%
JSE	Industrials	3.34%	24,748	15.13%
JSE	Financials	1.78%	18,216	15.44%
JSE	Resources 20	4.37%	46,139	19.81%
JSE	Small Companies	0.48%	26,337	15.97%
JSE	Listed Property	1.92%	319	2.90%
JSE	RAFI@ ALSI	2.87%	5,241	21.94%
JSE	RAFI@ 40	2.98%	5,048	18.44%
JSE	SWIX	2.25%	5,320	16.92%

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