

OMIGSA Comment – Tracy Brodziak, Sector Head: Financials

Old Mutual gains on the back of a buoyant financial sector

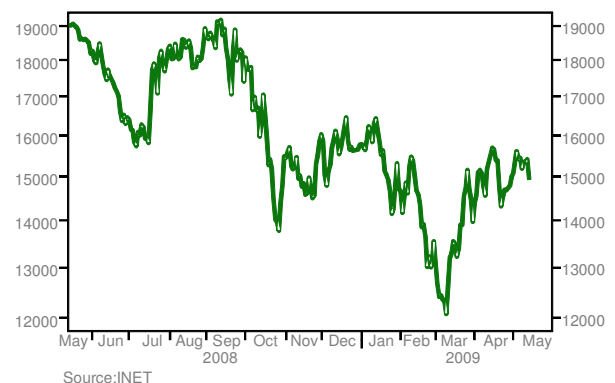


The financial sector continued to consolidate gains from the previous month, with the index up 5.1% in April. This translated into an outperformance of 2.7% against the FTSE/JSE All Share Weighted Index (SWIX) that returned 2.4%. The banking sector was up 5.1% in the month, while the life insurance sector was up 7.1% - mainly lifted by Old Mutual which advanced 19.7%, making it the best performer in the sector.

Recent interest rate cuts, with more cuts expected in coming months, will benefit the sector although relief on earnings will only be seen in the medium term.

However, the slowdown in Gross Domestic Product (GDP) growth and a possible increase in unemployment pose a headwind to the performance of the sector.

Financial Index



The operational environment for financial sector companies is expected to remain tough in 2009, but we believe that share prices already reflect much of this. We believe that the financial sector is still looking attractive on a long-term view and is underpinned by a high dividend yield. However, we would expect some consolidation over the near term after the strong rally, and given that the sector no longer looks very attractive compared to its global peers.

Our view is that financial stocks are facing a tougher operating environment, but this has been discounted in current prices and valuations are looking attractive, especially dividend yields.

08 - 14 May 2009 in a nutshell

Global: Most major global bourses retreated this week owing to weak economic data from the US. The S&P 500 in the US slipped 1.54% and the European market stocks fell 2.16% while emerging market shares were 2.24% lower.

South Africa: The local market was flat on the back of falling global markets. The FTSE/JSE All Share Index shed 0.67% and the biggest losers were industrials, which lost 3.86%.

Markets and Economics - Highlights

Global

- US share prices fell after retail sales data came in worse than expected. Retail activity is a closely followed indicator as it accounts for roughly two-thirds of the US economy.
- British inflation would be just above 1% in two years, and the economy would recover more slowly than previously thought, the Bank of England said.
- Investors were pouring money into emerging-market assets and a big trend of “out of the west, into the rest” had begun, said a local investment bank. Big emerging countries such as China, India, Brazil and SA must do more to open their markets to secure a new global trade deal, said US trade chief Ron Kirk after two days of intense talks at the World Trade Organisation (WTO).

South Africa

- Retail sales dived 5.3% in March compared with the same month last year, the steepest fall on record, adding to evidence that SA's economy has joined the global recession.
- SA's inflationary outlook was uncertain and the SA Reserve Bank was walking a tightrope, said a local economist.
- Vehicle sales confidence indicator shows that confidence levels dropped to 4,2 points in the second quarter, which illustrates an inactive market, and were down 18% y/y.
- The second phase of the financial crisis could bottom out at the earliest in August, but this was subject to companies in SA and around the world adapting their strategies to market conditions and becoming more risk aware, according to risk analysts Coface.
- SA's economic policy will not change, although it will be debated and the country will be able to weather the global downturn better than many, said the new Finance Minister Pravin Gordhan.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 14.05.2009	% Performance Return
United States	S & P 500 (US\$)	-1.54%	893	-1.11%
Europe	Euro Stoxx 50 (Euro)	-2.16%	2,354	-3.96%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.24%	699	23.28%
South Africa	FTSE/JSE All Share (ZAR)	-0.67%	21,396	-0.53%
Global	MSCI (US\$)	-1.39%	921	0.11%
ZAR/Dollar	Rand/US \$ (ZAR)	1.31%	8.50	-10.81%
ZAR/Pound	Rand/£ (ZAR)	2.77%	12.97	-5.47%
ZAR/Euro	Rand/Euro (ZAR)	3.29%	11.63	-11.63%
JSE	Industrials	-3.86%	19,424	-9.64%
JSE	Financials	-1.27%	14,988	-5.01%
JSE	Resources 20	-1.12%	39,567	2.74%
JSE	Small Companies	-0.39%	22,544	-0.74%
JSE	Listed Property	-3.28%	295	-4.84%
JSE	RAFI® ALSI	-1.29%	4,286	-0.28%
JSE	RAFI® 40	-1.94%	4,146	-2.72%
JSE	SWIX	-0.53%	4,505	-0.99%

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