



**OMIGSA Comment – Warren Jervis, Sector Head: Small Caps**

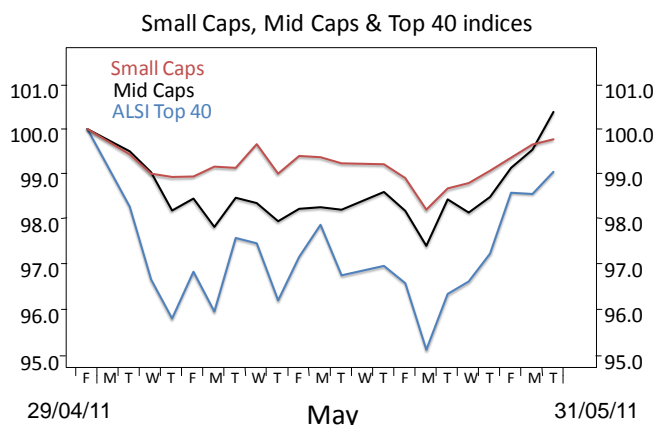
**Better performing retail shares boost mid caps, despite economic concerns**



The small-cap and mid-cap indices returned -0.2% and 0.4%, respectively, for the month ended 31 May 2011, while the FTSE/JSE Top 40 Index returned -1%. The outperformance of shares at the mid-cap level was probably a function of the better performing retail shares, as large resources

stocks were weaker.

The market performance has been fairly pedestrian for the year so far. Most of the uncertainty is stemming from the slower economic growth outlook.



Emerging markets are showing slower numbers and inflation is picking up substantially in these areas. The success of the quantitative easing policies is increasingly being questioned, and the belief in austerity packages is starting to wane. The European debt restructurings, exits from the Eurozone and the survival of the euro are still big question marks. Sovereign debt default remains one of the biggest issues for investors currently, and the yields on some government bonds are indicating a very real possibility of defaults occurring. Markets continue to be nervous given the socio-political events unfolding in the Middle East and the potential for debt default in the Eurozone.

Economic growth forecasts are being revised down and sovereign debt concerns are a constant threat to investor confidence. The average price/earnings (p/e) ratio at which small caps trade compared with large caps is now at a small discount.

**10 – 16 June 2011 in a nutshell**

**Global:** Global stocks dropped as weak U.S. manufacturing data and Greek debt woes weighed on investor sentiment. The S&P 500 fell 1.6%, while its European counterpart slid 1.7%. Emerging market stocks declined by 3.1%.

**South Africa:** The FTSE/JSE All Share Index ended lower, falling 2.0% as investors focused on persistent concerns over Greece. The market was closed on Thursday 16 June for the Youth Day holiday. The biggest loser was resources, which slid 2.0%.

**Markets and Economics – Highlights**

**Global**

- Factory activity in the U.S. Mid-Atlantic region fell to a near two-year low in June, fuelling fears of a sharp slowdown in manufacturing, a sector that has powered the U.S. economic recovery. This overshadowed better-than-expected data on the nation's labour and housing markets. The Philadelphia Federal Reserve Bank's business activity index, which measures Mid-Atlantic factory activity, dropped to -7.7, the lowest level since July 2009. It was the first contraction in nine months. Meanwhile, first-time applications for state unemployment insurance fell 16,000 to 414,000 and privately-owned housing starts rose 3.5% to an annual rate of 560,000 units in May.
- Factory output in Britain fell at its sharpest monthly pace in two years in April, hit by an extra holiday for the royal wedding and supply chain disruption from Japan's earthquake. The Office for National Statistics said industrial output fell 1.7% in April, the biggest fall since August 2009.
- China's inflation has risen to a new high of 5.5% y/y in May, from 5.3% in April, causing the central bank, The People's Bank of China, to raise the reserve requirement ratio for commercial lenders by 50 basis points. This was the sixth such change recently, taking the total ratio to 21.5%, triggering fears of a funding crunch. China's economy showed a slight slowdown in two consecutive months under the tightening measures. The producer price index rose 6.8% in May from a year earlier, which adds to the possibility of further monetary tightening. Meanwhile, India's central bank raised its key short-term interest rate by 25 basis points, to 7.5%, its tenth hike in 16 months, in a bid to tame high inflation.

## South Africa

- The SA Chamber of Commerce and Industry (Sacci) Trade Activity Index (TAI) reflected improved trade conditions in May. Current trade conditions, as reflected by TAI, which measures sales volumes, new orders, supplier deliveries, inventory levels and employment, recovered moderately to a seasonally adjusted 50 from a low 47 in April 2011. The seasonally adjusted TAI was 52 in May 2010, nine points above the April 2009 level of 41.
- The latest FNB Estate Agent Home Buying Survey reflected a slowing of residential demand and deterioration in buyers' confidence and households' financial positions, due to economic stress, seasonality and the National Credit Act. The survey has shown that more home owners are selling their properties to downscale due to financial pressure, from 22% of the total number of sellers in the first quarter to 25% in the second quarter.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 15.06.2011	% Performance Return
United States	S & P 500 (US\$)	-1.63%	1,268	0.79%
Europe	Euro Stoxx 50 (Euro)	-1.70%	2,731	-2.22%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-3.09%	1,107	-3.82%
South Africa	FTSE/JSE All Share (ZAR)	-2.00%	31,001	-3.48%
Global	MSCI (US\$)	-2.59%	1,274	-0.47%
ZAR/Dollar	Rand/US \$ (ZAR)	1.50%	6.84	3.48%
ZAR/Pound	Rand/£ (ZAR)	0.18%	11.03	6.98%
ZAR/Euro	Rand/Euro (ZAR)	-0.71%	9.70	9.73%
JSE	Industrials	-1.02%	27,550	-9.40%
JSE	Financials	-1.37%	21,184	-2.14%
JSE	Resources 20	-1.97%	52,214	-7.26%
JSE	Small Companies	-0.83%	31,983	-5.15%
JSE	Listed Property	-0.08%	384	-0.78%
JSE	RAFI® 40	-2.18%	6,463	-2.89%
JSE	RAFI® ALSI	-1.93%	6,234	-3.60%
JSE	SWIX	-1.83%	6,524	-3.26%

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