

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

**Global growth under question and investors cautious**



The small cap and mid-cap indices returned 0.0% and 0.3%, respectively, for the month ended 31 July 2011, while the FTSE/JSE Top40 Index returned -2.4%.

The outperformance of shares at the small/mid-cap level was a function of underperforming large cap mining stocks.

The market performance has turned negative for the year so far. Ongoing debt issues continue to create global uncertainty. Sovereign debt issues in the US and Europe continue to knock investor sentiment.

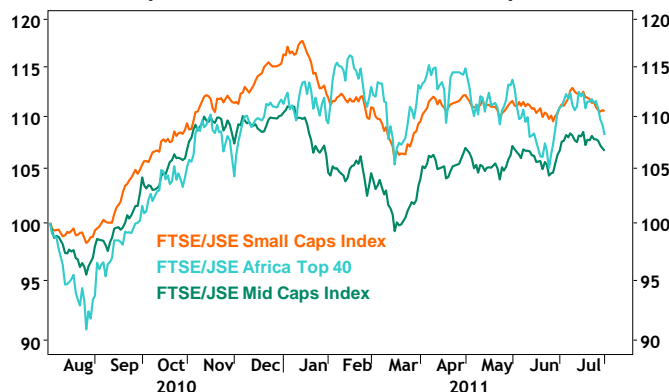
Most of the uncertainty surrounds the developed world and not the developing world. Emerging markets have slowed but are still expected to show robust growth over the next few years.

Quantitative easing policies might be re-introduced, for the third time, to get the US onto a firmer growth path. The European debt issues remain and Greece is still a basket case. Sovereign debt issues in Ireland, Spain, Portugal and Italy continue to capture news headlines.

With global growth under question, markets will remain nervous, and investors' cash will remain on the sidelines.

The average price:earnings (p:e) ratio at which small caps trade compared with large caps is now at a small discount.

**FTSE/JSE Small Caps Index, FTSE/JSE Mid Caps Index and FTSE/JSE Africa Top 40**



**12 – 18 August 2011 in a nutshell**

**Global:** After the carnage on the markets in the previous week, the data for this week reflected a less drastic dip in US and European markets. The S&P 500 fell 2.73% and its European counterpart slid 0.40%, while emerging markets improved 0.55%.

**South Africa:** The FTSE/JSE All Share Index was slightly lower, falling 0.68%, amid concern about economic data and the US and Euro zone debt crisis. After experiencing the sharpest fall of all the sectors last week, Small Companies was the winner for the week, improving 2.03%.

**Markets and Economics – Highlights**

**Global**

- US consumers have to deal with an added burden as US inflation surged in July at the fastest pace since March. This came amid discouraging data on the jobs market, manufacturing and housing, and as US and European stocks markets plunged on rising recession fears. The consumer price index rose 0.5% in July, undermining June's 0.2% decline. The gasoline index bounced from previous declines, surging 4.7% in July, and accounted for about half of the increase in the CPI. Food prices rose 0.4%, twice as fast as the prior month. A sharp rebound in gasoline prices and continued increases in food prices drove the inflation surge.
- A concerning 0.1% economic growth in the second quarter was reported by Germany, the Euro-zone's top economy, as well as a slower first-quarter expansion than initially reported, raising fears the Euro-zone powerhouse is losing momentum following the robust start to the year. This was below economists' expectations of 0.4% growth for the second quarter. The slower growth was largely as a result of weak expansion in exports, the backbone of the German economy. Imports rose in the second quarter more than exports, undermining the growth figures, as consumer spending and investment in construction also slipped. Meanwhile, Berlin is pushing hard for commercial banks to contribute to the cost of the estimated €120 billion Greek bailout deal, but has not yet convinced the European Central Bank and ratings agencies that this can be done without triggering a so-called credit default.
- Russian inflation slowed more than economists expected in July, as prices for fresh fruits and vegetables declined. Consumer prices advanced 9% from a year earlier last month, down from 9.4% in June, according to the Federal Statistics Service in Moscow. The data matched the figure released yesterday by the central bank, while 18 economists surveyed by Bloomberg forecast 9.2%. Prices were unchanged from a month earlier. The Economy Ministry said it expects acceleration in economic growth in the second half of the year, despite the slower economic growth in the second quarter of 2011.

## South Africa

- South African trade conditions suffered in July, aggravated by strike action, and reinforcing the possibility of continued slowing growth in the country. The South African Chamber of Commerce and Industry (Sacci) reported that its trade activity index dived to 38 last month from 47 in June, its lowest level since April 2009. The index covers activity in retail and wholesale trade, and exports. Rising costs for fuel and other utility services, and wage increases well above inflation, were putting trade margins under pressure. Recent gloomy economic data has prompted local money markets to price in steady interest rates over the coming year, despite rising inflation.
- FNB Home Loans has reported the township market appeared to be the key source of the relative strength in the affordable area value band. House prices in these areas grew 14.6% year-on-year in the second quarter of this year, the highest of the four area value bands in the residential property market. On a year-on-year basis, the average price of houses in affordable areas (R376 974) grew by 7.4% in the second quarter, while that in middle income areas (R724 136) rose by 5.7%. By comparison, the average house price in upper income areas (R1.092m) rose by 3.1% year on year and top end areas (R1.889m) by 4.5%.

### Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 18.08.2011	% Performance Return
United States	S & P 500 (US\$)	-2.73%	1,141	-9.33%
Europe	Euro Stoxx 50 (Euro)	-0.40%	2,207	-20.99%
Emerging Mkts	MSCI Emerg Mkts (US\$)	0.55%	995	-13.52%
South Africa	FTSE/JSE All Share (ZAR)	-0.68%	29,289	-8.81%
Global	MSCI (US\$)	-1.60%	1,148	-10.32%
ZAR/Dollar	Rand/US \$ (ZAR)	-0.07%	7.18	8.62%
ZAR/Pound	Rand/£ (ZAR)	1.58%	11.84	14.84%
ZAR/Euro	Rand/Euro (ZAR)	0.50%	10.28	16.23%
JSE	Industrials	-0.16%	26,246	-13.69%
JSE	Financials	0.19%	20,340	-6.04%
JSE	Resources 20	-0.28%	47,956	-14.82%
JSE	Small Companies	2.03%	31,179	-7.54%
JSE	Listed Property	0.68%	381	-1.49%
JSE	RAFI@ 40	-0.57%	6,053	-9.05%
JSE	RAFI@ ALSI	-0.65%	5,827	-9.90%
JSE	SWIX	-0.42%	6,212	-7.89%

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