

OMIGSA Comment – Tracy Brodziak, Head: Financials, Equity Research

The ‘green giant’ boosts financial sector



Old Mutual gained 21.6% for the month ended 31 July 2009 and is up over 100% since it reached its lows in mid-March, as concerns over the global economy and Old Mutual’s US credit exposure have eased.

The buoyant green giant provided a much-needed boost to the FTSE/JSE Financial Index, which returned a strong 10.2% for the month ended 31 July 2009, outperforming the broader market as the FTSE/JSE Shareholder Weighted All Share Index (SWIX) gained 9%.

The banking sector climbed 6.6% in the month, while the life insurance sector gained a spectacular 16.1%. We still believe there is value in the Old Mutual counter.

OLD MUTUAL PLC



Source: INET

The operational environment for financial sector companies is expected to remain tough in 2009. The sector will benefit from the recent interest rate cuts, although relief on earnings will only be seen in the medium term, as there is a lag before one sees a benefit on the bad debt line. The continuing recession and a possible further increase in unemployment pose a headwind to the performance of the sector.

We believe that the market will look through these poor earnings. On an absolute basis, we believe that the financial sector is looking attractive, and is still trading below its long-term average. Financial stocks are facing a tougher operating environment, but this has been discounted in current prices. Valuations are looking attractive, and are still below historic averages.

14 - 20 Aug 2009 in a nutshell

Global: Major global bourses receded on bleak US economic data and investors are questioning the strength of the US consumer in stabilising US corporate revenues. The S&P 500 in the US lost 0.59% while the European market shed 1.55% and emerging markets shares slid 2.22%.

South Africa: In line with its global peers, the local market retreated with the FTSE/JSE All Share slipping 1.59%. Listed Property was the best performing sector, notching up 1.64% for the week and the losers were miners, giving up 2.82%.

Markets and Economics - Highlights

Global

- The cost of living in the US was unchanged in July, and dropped by the most since 1950 from a year ago, as the recession sapped companies’ pricing power. The flat reading met market expectations and followed a 0.7% increase in June, data from the US Labour Department showed.
- Britain had an £8bn budget deficit last month, the largest for a July since records began in 1993 and

far outstripping analysts' £600m estimate. The shortfall came after recession ravaged tax revenue and the cost of unemployment benefits surged.

- Japan, the world's second-largest economy, rebounded for the first time in five quarters after the most brutal economic downturn in decades. Japan's economy grew 0.9% from April to June, after shrinking by a revised 3.1% the previous quarter and by 3.5% in October to December last year.

South Africa

- The recession extended into the second quarter, the latest gross domestic product (GDP) figures showed, but the economy is not shrinking as fast as before, suggesting that recovery is in sight, even though it will be slow. The economy contracted at an annualised 3% in the second quarter, compared with the 6.4% decline in the first quarter, said Stats SA.
- The residential building sector recorded a drop of 45.3%, or R7.2bn less than the R15.9bn of the same period last year. Declines were recorded for additions and alterations, which were down 10.5%, and non-residential buildings, down 10.2%, said Stats SA.
- The consumer price index (CPI) – the measure used by the Reserve Bank for its inflation target – is expected to have receded to 6.6% y/y last month from the 6.9% increase in June, according to a survey of economists by I-Net Bridge. Forecasts among the seven economists surveyed ranged from 6.3% to 6.8%.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 20.08.2009	% Performance Return
United States	S & P 500 (US\$)	-0.59%	1,007	11.52%
Europe	Euro Stoxx 50 (Euro)	-1.55%	2,664	8.69%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-2.22%	837	47.62%
South Africa	FTSE/JSE All Share (ZAR)	-1.59%	24,602	14.38%
Global	MSCI (US\$)	-0.75%	1,063	15.54%
ZAR/Dollar	Rand/US \$ (ZAR)	-1.00%	7.91	-17.00%
ZAR/Pound	Rand/£ (ZAR)	-1.51%	13.04	-4.96%
ZAR/Euro	Rand/Euro (ZAR)	-1.23%	11.26	-14.44%
JSE	Industrials	0.70%	22,645	5.35%
JSE	Financials	-2.06%	17,500	10.91%
JSE	Resources 20	-2.82%	44,903	16.60%
JSE	Small Companies	0.41%	25,017	10.15%
JSE	Listed Property	1.64%	310	0.00%
JSE	RAFI® ALSI	-1.98%	5,112	18.94%
JSE	RAFI® 40	-1.97%	4,916	15.34%
JSE	SWIX	1.11%	5,174	13.71%

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