OLD MUTUAL Investment Group | Equity Research

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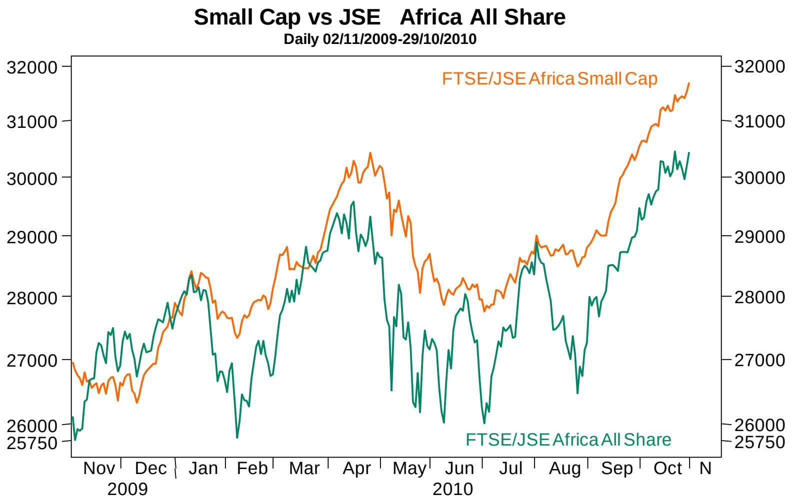
OMIGSA Comment – Warren Jervis*, Sector Head: Small Caps

Capital flows into emerging markets ……drive up small caps

The market has been very strong over the last two months based on capital flows into emerging markets and an allocation swing from bonds into equity. This strength is despite the on-going concerns about economic growth and the poor state of sovereign balance sheets. The mini mergers and acquisitions boom has largely driven the market over the last two months as a number of "cautionary statements" have been announced in the press.



Source: I-Net

Meanwhile, the Small Cap and Mid-Cap indices returned 4.0% and 2.7%, respectively, for the month ended 31 October 2010, while the FTSE/JSE Top 40 Index returned 3.7%. The slight underperformance of shares in the mid-cap sector was small, while the better performance in the small caps indicates an increased appetite for risk by investors.

Portfolio managers will remain focused on earnings growth and sustainable top-line growth. The news out of certain sectors of the economy is starting to highlight the fact that analyst earnings expectations are looking ambitious. November is "quantitative easing 2" (QE2) month, so we will have to wait and see what impact that has in the months ahead.

Warren Jervis' Old Mutual Small Caps Unit Trust Fund was ranked first in its category for the 12 months to 31 October 2010 by Morningstar.

19 - 25 Nov 2010 in a nutshell

Global: Global bourses were a mixed bag this week on concerns over geopolitical tensions in the Korean peninsula and the debt crisis in the Euro-zone. Slowed down by the Thanksgiving Public Holiday yesterday, the S&P 500 was flat at 0.08%, while its European counterpart plunged 3.15%, and emerging market shares slid 1.08%.

South Africa: The local market tracked other emerging markets lower this week, with the FTSE/JSE All Share Index shedding 0.87%. The winners were Small Caps and Listed Property, which gained a tad 0.28% and 0.51%, respectively.

Markets and Economics - Highlights

Global

- US Core producer prices recorded their largest decline in more than four years, while industrial output was flat last month, underscoring the Federal Reserve's concerns about the low-inflation environment. The Labour Department said that the core producer price index (PPI), which excludes food and energy costs, fell 0.6% - the biggest drop since July 2006 – after edging up 0.1% in September.
- Ireland became the second Euro-zone member to seek a rescue as the cost of saving its banks threatened a re-run of the Greek crisis that destabilised the currency. A package that Goldman Sachs estimates may total R912 billion failed to dampen speculation that Portugal and Spain will need to tap the emergency fund set up by the EU and IMF after the rescue of Greece.

- The Indian government is making serious efforts to moderate inflation. India's annual headline inflation eased slightly last month to a 10-month low, but at 8.58% was still above the Indian central bank's comfort zone, said Prime Minister Manmohan Singh.

South Africa

- Growth in SA's gross domestic product (GDP), the broadest measure of output, slowed to 2.6% in the third quarter of 2010 from a revised 2.8% in the second quarter, Statistics SA said.
- Consumer inflation rose faster than expected last month, dealing a blow to hopes of another interest rate cut. CPI (Consumer Price Inflation) rose 3.4% from a year earlier, quickening from 3.2% in September and a touch above market consensus. It was the first time this year that inflation has accelerated.
- Even though consumers say they will refrain from splurging their cash this festive season, a confidence index shows they are holding up remarkably well despite having just emerged from a recession. The First National Bank Bureau for Economic Research consumer index hardly changed in the fourth quarter of the year, registering +14 compared with +15 in the third quarter.
- An indicator that points to where the economy will be in the middle of next year bounced in September. The SA Reserve Bank's leading composite indicator rose to 131.9 points from a revised 130.8 in August – above the previous peak of 131.5 in April.

(Due to the Thanksgiving Holiday, the US market was closed yesterday, 25 November. The S&P 500 number below is at the market close on Wednesday.)

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 25.11.2010	% Performance Return
United States	S & P 500 (US$)	0.08%	1,198	7.43%
Europe	Euro Stoxx 50 (Euro)	-3.15%	2,765	-6.78%
Emerging Mkts	MSCI Emerg Mkts (US$)	-1.08%	1,099	11.07%
South Africa	FTSE/JSE All Share (ZAR)	-0.87%	31,298	13.13%
Global	MSCI (US$)	-0.81%	1,224	4.79%
ZAR/Dollar	Rand/US $ (ZAR)	1.01%	7.03	-4.87%
ZAR/Pound	Rand/£ (ZAR)	-0.98%	11.06	6.75%
ZAR/Euro	Rand/Euro (ZAR)	-1.37%	9.37	-10.68%
JSE	Industrials	-0.08%	29,586	17.20%
JSE	Financials	-0.86%	21,432	10.89%
JSE	Resources 20	-0.72%	54,462	6.61%
JSE	Small Companies	0.28%	32,502	16.55%
JSE	Listed Property	0.51%	393	21.67%
JSE	RAFI® ALSI	-0.84%	6,479	12.64%
JSE	RAFI® 40	-0.87%	6,300	12.66%
JSE	SWIX	0.00%	6,615	15.34%

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