

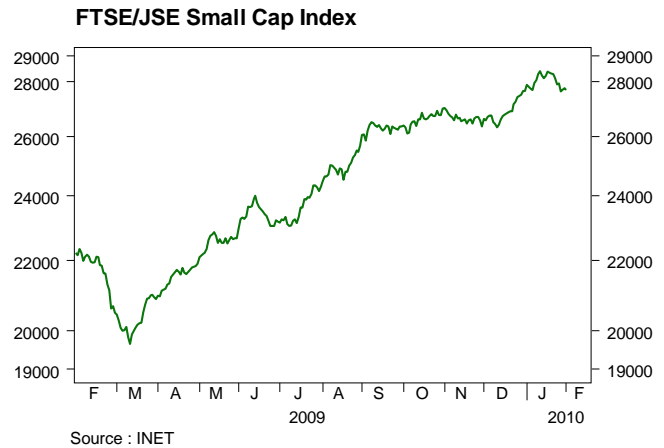
OMIGSA Comment – Warren Jervis, Sector Head: Small Caps

Looking forward to 2010 with “cautious optimism”



The small cap and mid-cap indices returned 6.6% and 5.6% respectively for the quarter ending December 2009, while the FTSE/JSE Top 40 Index returned 12.5%. The underperformance of shares in the small- and mid-cap sectors of the market has again been due to the strong monthly performance of the large mining shares.

The reporting season finally came to an end in December and we look forward to 2010 with “cautious optimism”. The impacts of a stronger rand, lower volumes and deflationary pricing will impact on companies in the year ahead. Margins will remain under pressure as additional electricity costs and lower volumes materialise.



The Christmas trading period appears to be a little softer than last year so far, as discretionary spending remains subdued. Interest rates should remain low and in line with global norms, but we are now expecting a hike towards the end of next year. Companies’ prospect statements should start to reflect a better operating environment towards the end of the year. The recovery in 2010 will be a slow one.

22 - 28 Jan 2010 in a nutshell

Global: Negative investor sentiment on the fragility of the global economy weighed on most global bourses this week. The S&P 500 in the US gave up 2.78% while the European market stocks plunged 4.40% and emerging market shares were 4.18% weaker.

South Africa: The resources-heavy local bourse faltered, with the FTSE/JSE All Share Index losing 2.53% on the stronger greenback and risk-aversion. The biggest losers of the week were resources, plummeting 4.57%.

Markets and Economics - Highlights

Global

- Cities such as Las Vegas are suffering: house prices there have fallen by 27% in the past year and by 55% since the crisis began. Home prices have declined by 7.3%, according to the S&P Case-Shiller index.
- The UK limped out of its deepest recession in more than 50 years, with official figures showing growth of just 0.1% in the final quarter of last year. The contraction in output of 6.1% from the start of the slump in the second quarter of 2008 to the third quarter of 2009 made the UK recession the deepest it has suffered since records began in 1955.
- China’s authorities have told some banks temporarily to halt lending altogether after the sector extended a total of (€114bn) in new loans in just the first two weeks of January 2010.

South Africa

- Inflation rose more slowly than expected in December, but breached its official 3%-6% target range for the first time since September, coming in at 6.3% y/y from 5.8% the previous month, official data showed.
- Prospects for the local economy continue to improve. Data on the Reserve Bank's composite lead indicator show it rose in November for the eighth month in a row, from 116.5 in October to 119.8. As 10 of its 12 components came in positive, the composite indicator was 2.8% up in the month and nearly 12% higher than in the same month of the previous year.
- The volatile exchange rate, over-regulation and skills shortages continue to trouble South African chief executives as they emerge from recession, said PricewaterhouseCoopers (PwC).
- The South African Reserve Bank (SARB) decided on Tuesday to leave its repurchase rate unchanged at 7.0%. The decision was in line with market expectations.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 28.01.2010	% Performance Return
United States	S & P 500 (US\$)	-2.78%	1,085	-2.70%
Europe	Euro Stoxx 50 (Euro)	-4.40%	2,737	-7.73%
Emerging Mkts	MSCI Emerg Mkts (US\$)	-4.18%	940	-5.00%
South Africa	FTSE/JSE All Share (ZAR)	-2.53%	26,795	-3.15%
Global	MSCI (US\$)	-3.34%	1,128	-3.42%
ZAR/Dollar	Rand/US \$ (ZAR)	0.53%	7.60	2.84%
ZAR/Pound	Rand/£ (ZAR)	0.08%	12.25	3.29%
ZAR/Euro	Rand/Euro (ZAR)	-0.56%	10.60	1.05%
JSE	Industrials	-2.48%	24,368	-3.47%
JSE	Financials	-1.15%	19,528	1.04%
JSE	Resources 20	-4.57%	48,431	-5.19%
JSE	Small Companies	-1.33%	27,753	-0.48%
JSE	Listed Property	-2.13%	322	-0.31%
JSE	RAFI® ALSI	-2.52%	5,610	-2.47%
JSE	RAFI® 40	-2.86%	5,430	-2.90%
JSE	SWIX	-1.95%	5,582	-2.67%

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