

OMIGSA Comment – Warren Jervis: Sector Head: Small Companies

Investor confidence will slowly return over the longer term

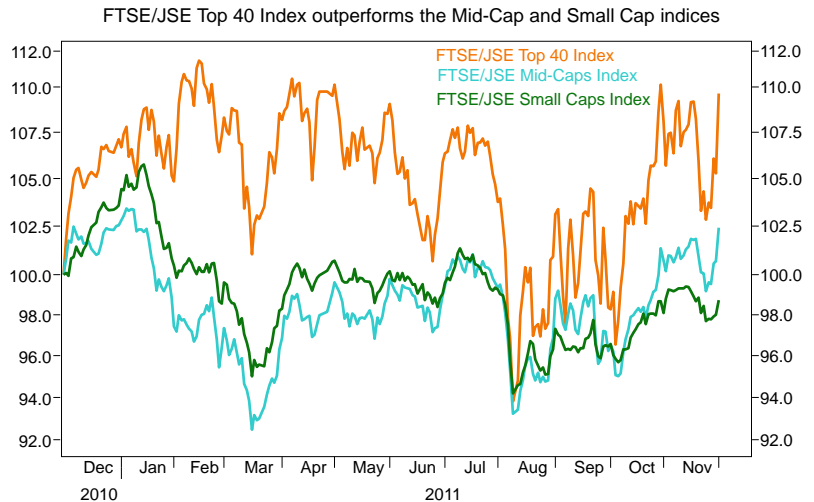


The Small- and Mid-cap indices returned 1.0% and 2.0%, respectively, for the month ended 30 November 2011, while the FTSE/JSE Top 40 Index returned 1.5%.

The market had a major boost at the end of the month, based on Chinese rate cuts and increased financial support for Europe from the IMF and the US. Some positive sentiment after a tough four months is very welcome, but it doesn't change the fact that the world is still over geared. Global growth will remain pedestrian, and the market will continue to swing from panic and nervousness, to complete over exuberance.

This is a traders market where fair values are vital in trying to outperform, as market prices will continue to be volatile. This creates good opportunities for those who have done their homework. Investor confidence will slowly return over the longer term, and the austerity packages and deleveraging will occur. However there will be unexpected shocks along the way and it will not be an easy ride. Two of the main concerns are inflation and interest rates, and both of these could exceed our current expectations. Some restructuring of the Eurozone treaties or countries is definitely on the cards.

Emerging markets have slowed, but are still expected to show robust growth over the next few years. China, in particular, appears to be trying to stabilise the growth rate.



Source : I-Net

25 November – 1 December 2011 in a nutshell

Global: Global markets reacted well to the action by central banks to provide liquidity to the financial system. The S&P 500 rose 7.13%, the Euro Stoxx 50 increased 10.70%, while emerging markets also delivered a positive return of 7.98%.
South Africa: The local market mirrored these positive returns, with the FTSE/JSE All Share Index gaining 4.96%. All sectors recorded good gains, while resources had the highest gain of all at 6.33%.

Markets and Economics – Highlights

Global

- It seems as if there is indeed a light at the end of the tunnel for the US economy. The Dow Jones recorded a whopping 490 point jump, its biggest one-day gain since March 2009. Eager holiday shoppers, a constantly improving job market, and continued growth in the manufacturing industry were identified as the main drivers of this positive growth. Although US economic growth remains slow, it still provides hope that the dark clouds will eventually part. However, the economy is not out of the woods yet, as the European debt crisis, the likelihood of another recession there, and the housing market remain in focus.
- In a move to prevent the European debt crisis from exploding into global panic, the US Federal Reserve, the European Central Bank (ECB), and other central banks in Britain, Canada, Japan and Switzerland agreed to supply each other with unlimited amounts of each country's money, at a reduced cost. This will help the ECB to inject US dollars into Eurozone banks, at low interest rates, which seemed to work three years ago, during the US financial crisis. In a separate move, China's central bank also cut its reserve requirements for commercial lenders to boost the economy, a move that sent stocks on Wall Street and other financial capitals soaring.
- Turkish bond yields are rising faster than the rest of emerging market debt and have lost the favour of some of the world's largest investors, who want policymakers to slow growth before they even tackle rising inflation. On Tuesday, yields on Turkish two-year notes accelerated to 10.9% from 8.4% at the end of September. However, money managers are bracing for the worst as the central bank tries to fight the 7.7% inflation rate without raising benchmark costs, a move considered "unorthodox", according to Fitch Ratings.

South Africa

- South Africa's economy gained 1.4% for the third quarter of 2011, thanks to the quarter-on-quarter growth in the finance, retail, motor trade and government services sectors. This growth is a slight improvement on the 1.3% recorded from April to June 2011. Activity in the equity, bond and other financial markets were the main drivers of growth in the finance, real estate and business services sectors. The mining industry was not so fortunate and suffered a 17.4% decline, caused by low production across the board during South Africa's July "strike season".
- Local stocks increased 3.7% on Wednesday, on the back of coordinated efforts by major central banks to provide liquidity to the global financial system that led to the ALSI's biggest one-day gain in more than 18 months. An expert said that markets are on the charge at the moment, and credible steps by central banks to address this crisis, has given the bulls a reason to cheer. The rand rose by 2.8% against the US dollar, to its strongest level in two weeks. Government bonds also rallied sharply, in line with the stronger euro.

Key Indicators:

Market	Index	Movement for the period		Year to Date
		%	Index Value @ 01.12.2011	% Performance Return
United States	S&P 500 (US\$)	7.13%	1,245	-1.07%
Europe	Euro Stoxx 50 (Euro)	10.70%	2,314	-17.16%
Emerging Mkts	MSCI Emerg Mkts (US\$)	7.98%	959	-16.67%
South Africa	FTSE/JSE All Share (ZAR)	4.96%	32,749	1.96%
Global	MSCI (US\$)	7.69%	1,184	-7.46%
ZAR/Dollar	Rand/US \$ (ZAR)	-4.64%	8.08	22.19%
ZAR/Pound	Rand/£ (ZAR)	-3.59%	12.66	22.78%
ZAR/Euro	Rand/Euro (ZAR)	-3.83%	10.88	23.04%
JSE	Industrials	3.86%	28,444	-6.47%
JSE	Financials	3.65%	21,844	0.91%
JSE	Resources 20	6.33%	54,214	-3.71%
JSE	Small Companies	1.05%	31,905	-5.39%
JSE	Listed Property	1.16%	381	-1.57%
JSE	RAFI® 40	5.20%	6,744	1.34%
JSE	RAFI® ALSI	5.32%	6,457	-0.15%
JSE	SWIX	4.33%	6,879	2.00%

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