



Markets Outlook: Peter Brooke  
Boutique Head, Macro Strategy Investments

**“2010 Roadmap: A review of the noughties  
and what it means for the way ahead”**

# South Africa Nominal Returns (% p.a.)

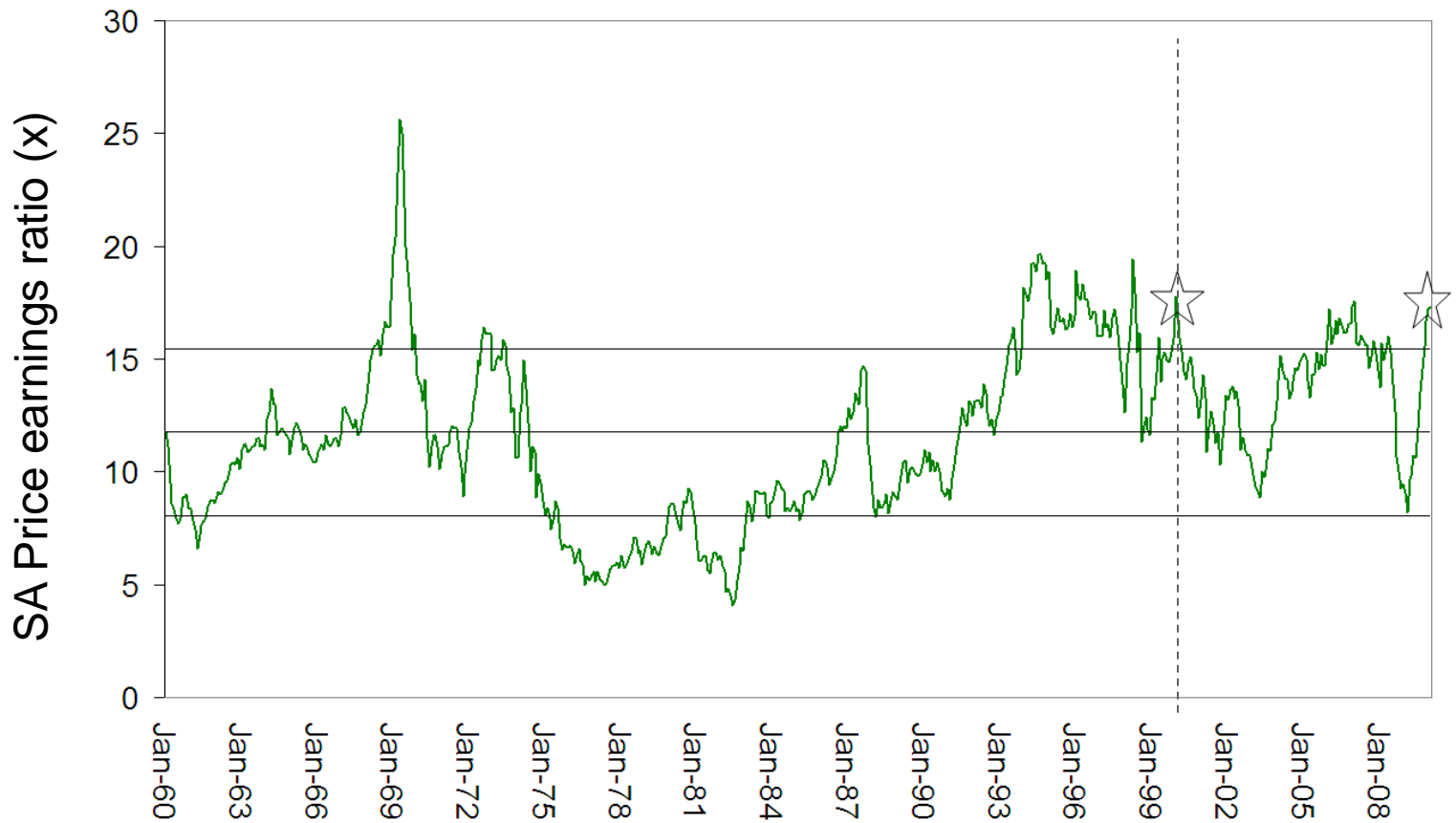
	SA Equity	SA Listed Property	SA Bonds	SA Cash	Offshore Equity	Profile Balanced	SA Inflation
40 Years	17.9	10.8	11.7	11.7	16.1	-	10.0
Seventies	16.8	3.4	6.4	7.9	8.5	-	10.3
Eighties	24.8	13.6	11.0	14.5	34.4	19.5	14.6
Nineties	14.3	3.8	17.4	15.7	22.3	16.9	9.3
Noughties	15.8	23.8	12.1	8.9	2.0	14.3	6.1
2009	32.1	14.1	-1.0	9.1	4.2	18.1	6.0

# South Africa Real Returns (% p.a.)

	SA Equity	SA Listed Property	SA Bonds	SA Cash	Offshore Equity	Profile Balanced
40 Years	7.9	0.8	1.7	1.7	6.1	-
Seventies	6.5	-6.9	-3.8	-2.3	-1.8	-
Eighties	10.2	-1.1	-3.7	-0.2	19.7	4.9
Nineties	5.0	-5.5	8.2	6.4	13.0	7.7
Noughties	9.8	17.7	6.1	2.8	-4.0	8.3
2009	26.1	8.0	-7.0	3.1	-1.9	12.1

# Good returns were from earnings

PER moved from 17.8x in 2000 (tech bubble) to 17.2x currently



Historic PE Ratio on FTSE/JSE All Share index



# Noughty Themes

- ▲ BRIC's
  - China / Emerging markets
  - Resource intensity, commodity boom
- ▲ Higher GDP growth
  - Capex boom, emerging consumer
- ▲ Monetary policy
  - Lower inflation, lower rates



# The China boom directly helped SA



\* Real annual change per decade

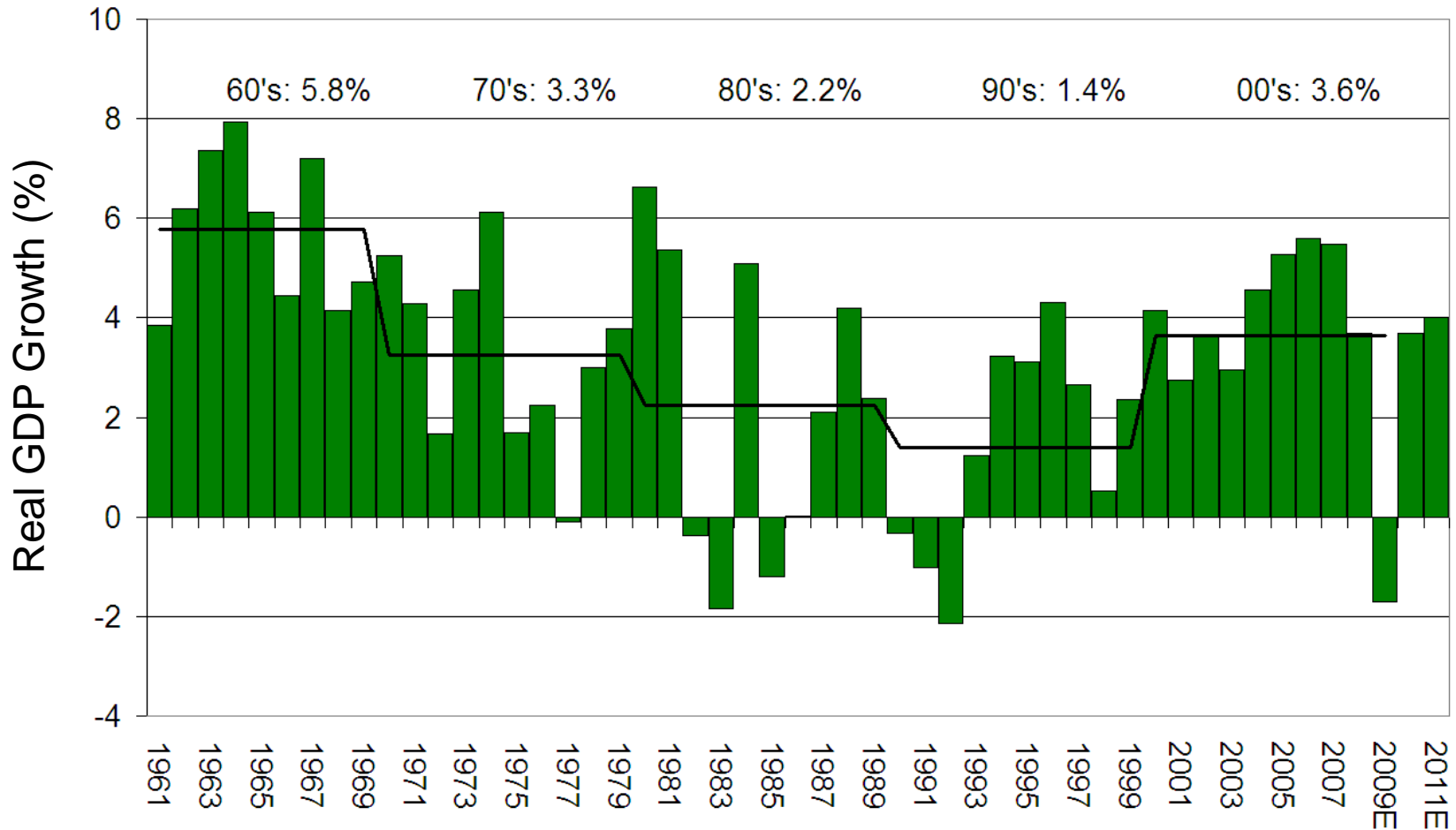
\*\* Copper price (US\$) / US inflation



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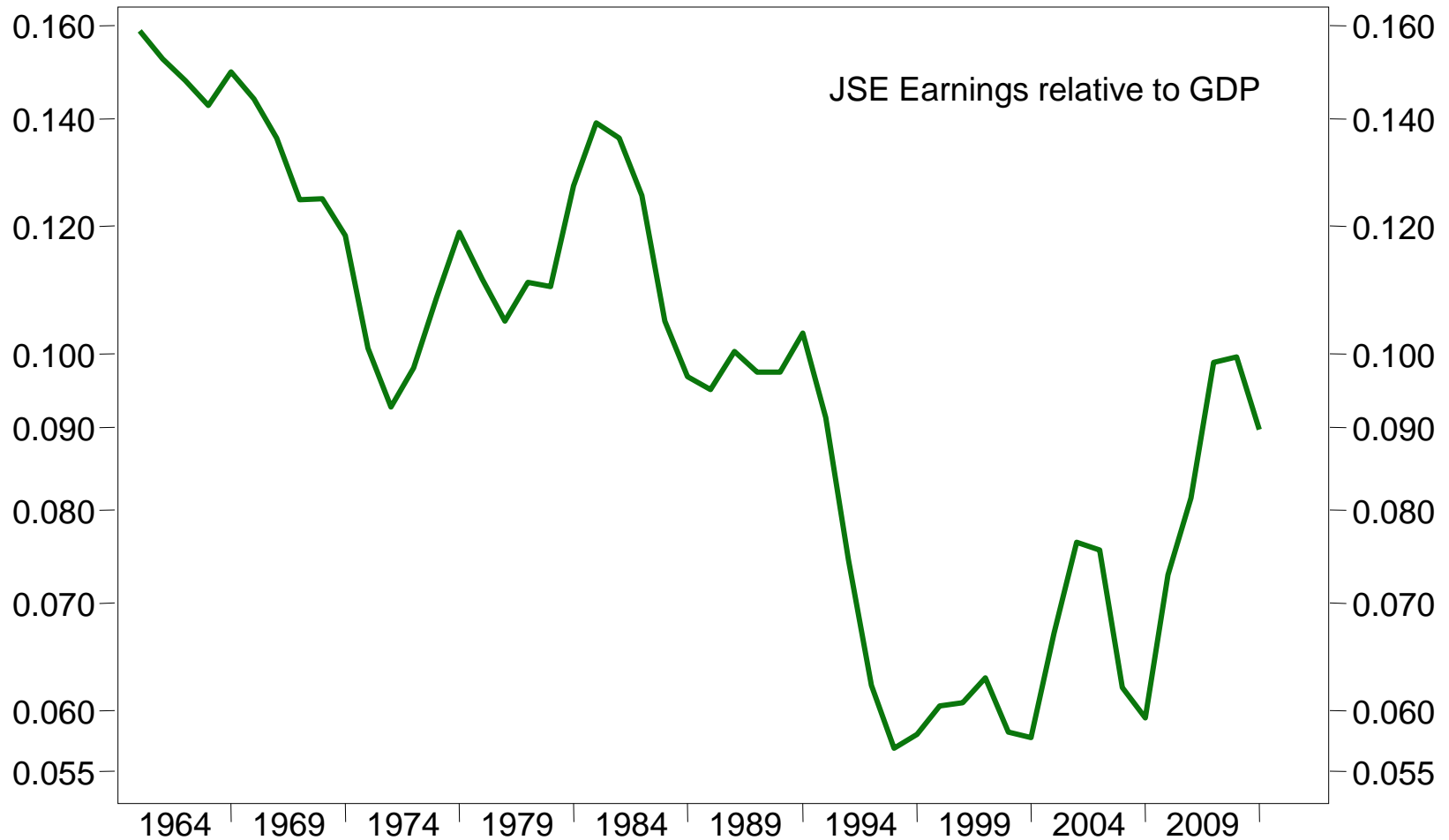
# SA: Best decade for GDP growth since 1960's



\*Growth rate refers to Compound Annual Growth Rate in real terms per decade



# JSE earnings growth outpaced GDP



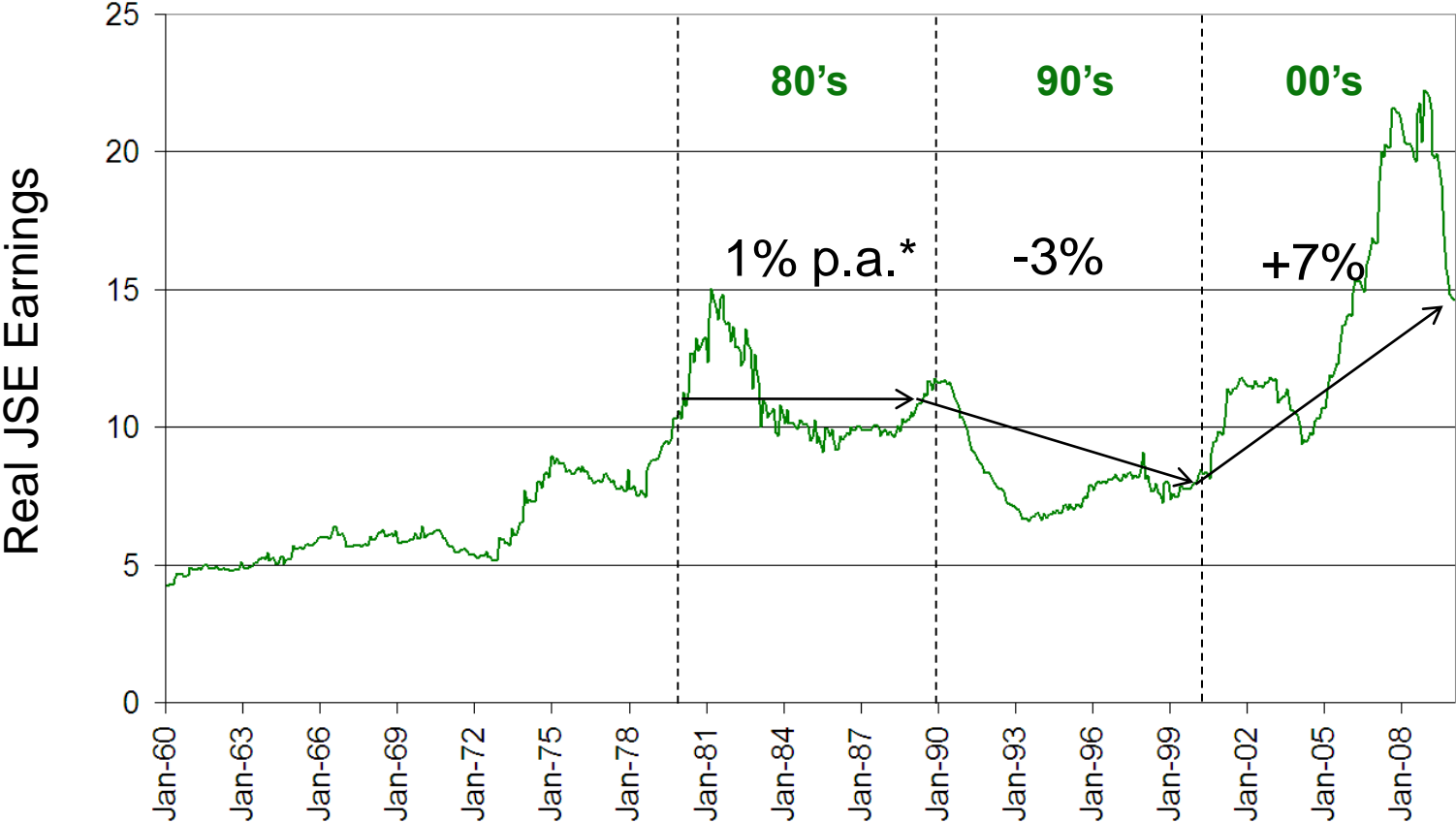
Source: MSI/Inet



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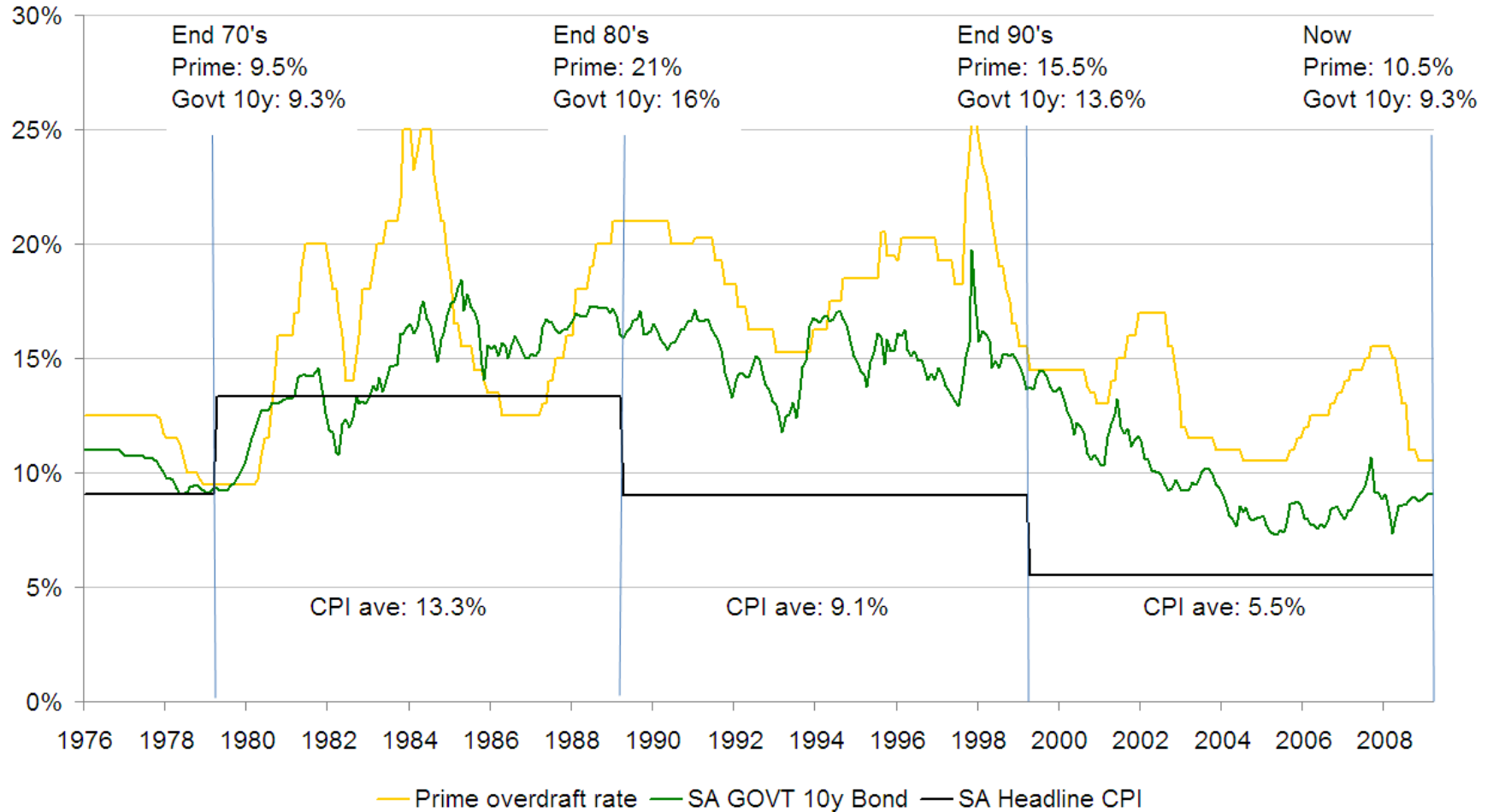
# Resulting in great earnings growth



\*Growth rate refers to Compound Annual Growth Rate in real terms per decade



# Monetary Policy



# US Real Returns (USD) (% p.a.)

	S&P 500	Govt Bonds	Cash	Copper	Real Estate
80 Years	6.1	2.2	0.5	0.4	0.9
Thirties	1.9	6.9	2.6	-1.6	0.8
Forties	3.8	-2.2	-5.0	-1.3	2.7
Fifties	17.2	-2.3	-0.3	3.8	0.8
Sixties	5.3	-1.1	1.4	2.2	-0.7
Seventies	-1.5	-1.9	-1.1	-0.3	0.6
Eighties	12.4	7.5	3.8	-4.7	1.5
Nineties	15.3	5.9	2.0	-5.7	-0.4
Noughties	-3.6	5.1	0.2	11.1	1.7
2009	26.5	-17.2	0.2	153.0	0.0

# Volatile rand not a theme



\*Growth rate refers to Compound Annual Growth Rate in real terms per decade

# Expected Returns



# Teenie Themes

- ▲ China / Emerging markets
  - Emerging world will continue to grow faster than “old” world
  - Good for resource demand, especially agricultural commodities, bad for the environment, good for Africa
- ▲ De-leveraging
  - Reduced financial intermediation, slower Anglo-Saxon growth = more cyclical
  - South Africa affected, bond issuance a problem
- ▲ Electricity: This one won't go away
- ▲ Dividends: It's why you buy shares, stupid



# Long-Term Asset Allocation View

	Real Return	View	Comment
SA		<b>N-</b>	Vulnerable to decreased risk appetite.
Equity	6.5%	<b>N</b>	Limited valuation upside. Reliant on earnings growth. Could still benefit from global flows.
Property	6.5%	<b>N+</b>	Recent re-rating has reduced expected returns. Vacancies will erode growth in the short-term.
Bonds	3.0%	<b>N</b>	Improving valuations result in an upgrade. Massive supply remains a concern.
Cash	3.0%	<b>N-</b>	Good risk adjusted returns but not a long-term option.
Offshore		<b>N+</b>	Should benefit in the long run from depreciation.
Equity	7.0%	<b>+</b>	We expect earnings to surprise on the upside.
Bonds	2.0%	<b>-</b>	Longer-term loser as rates eventually normalise.
Cash	0.0%	<b>-</b>	Unattractive until rates rise.

NB: These are long-term, real returns expected over the next five years



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# 2010 Outlook



# The party has to end sometime

2009

1. Record low interest rates
2. Quantitative easing
3. Massive fiscal stimulus

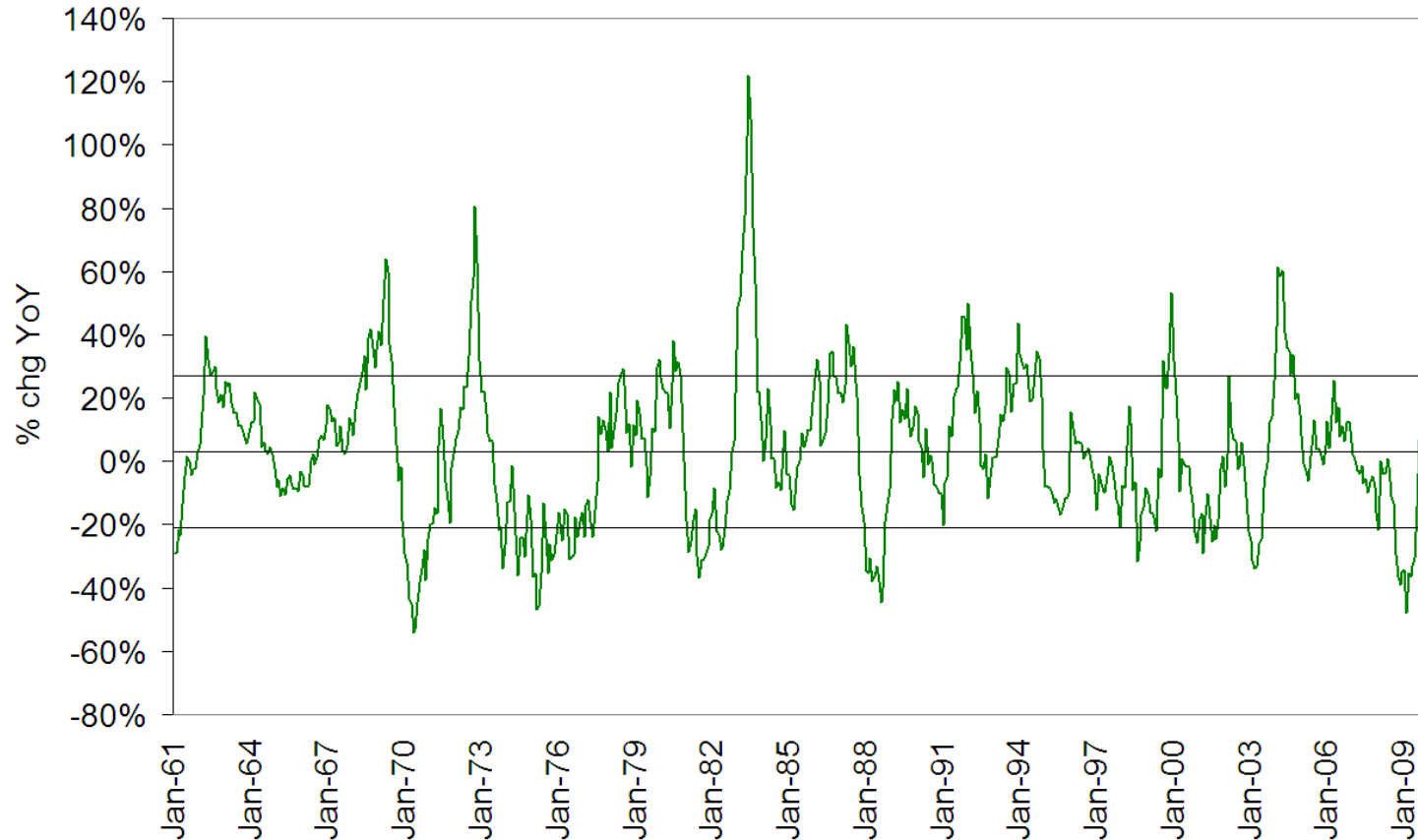
2010

1. Interest rates will rise (China, Aussie)
2. QE lapses
3. Governments must plan their exit



# 2009 return driven by massive re-rating

82% increase in PE - largest annual increase ever

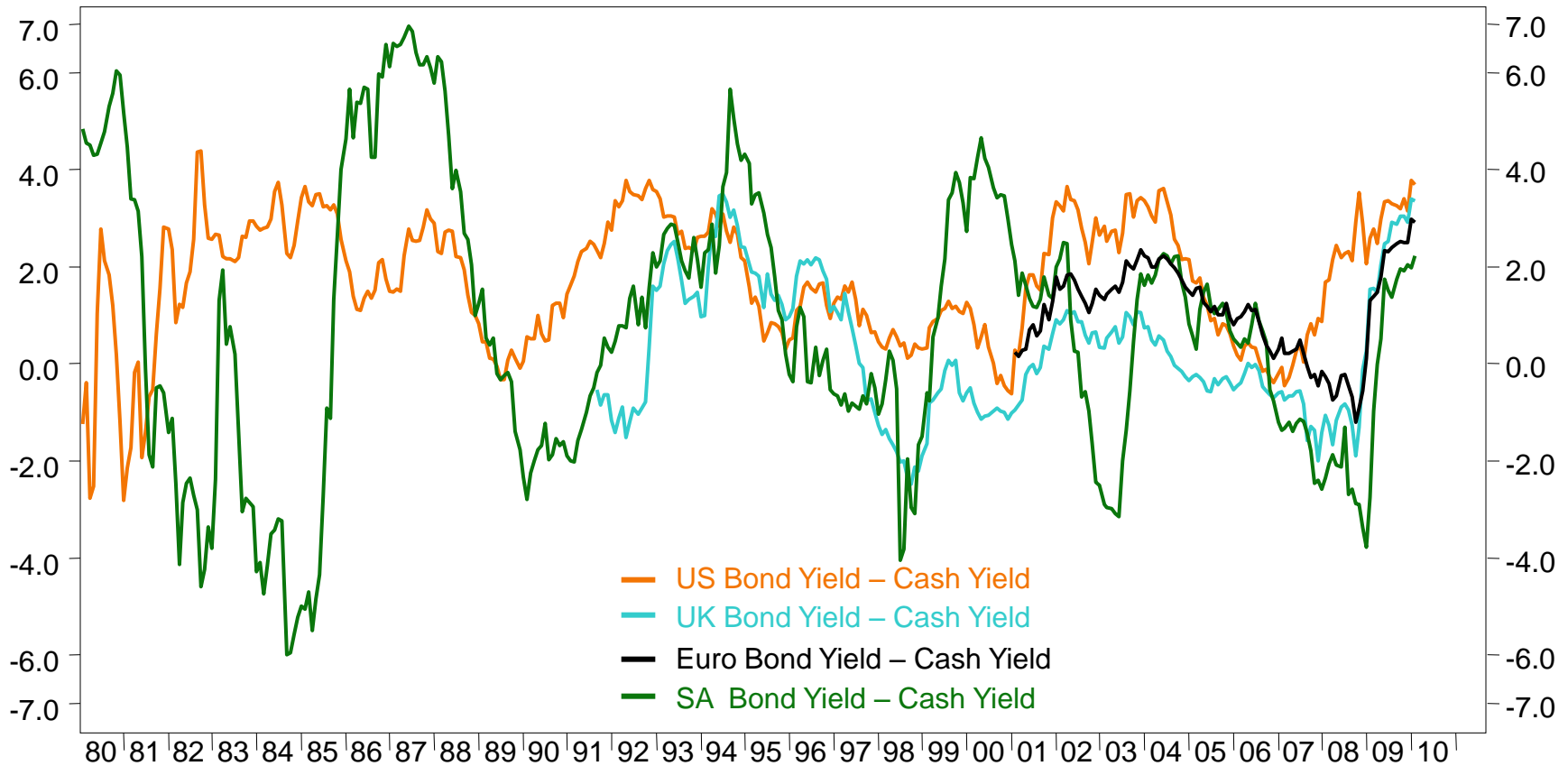


Percentage change in price earnings ratio of the JSE year-on-year



# Earnings will rise

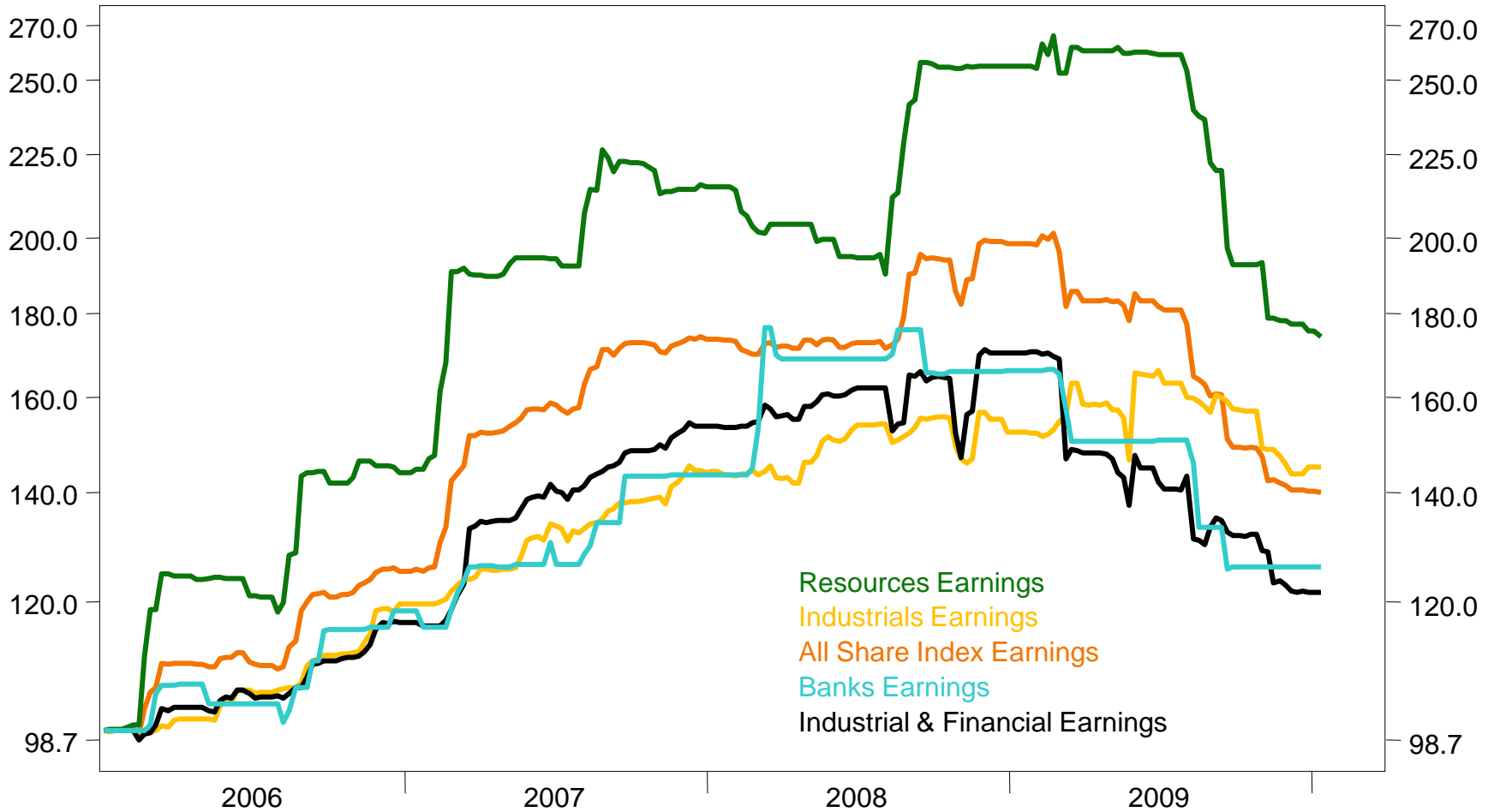
## Yield gap at high levels across the world



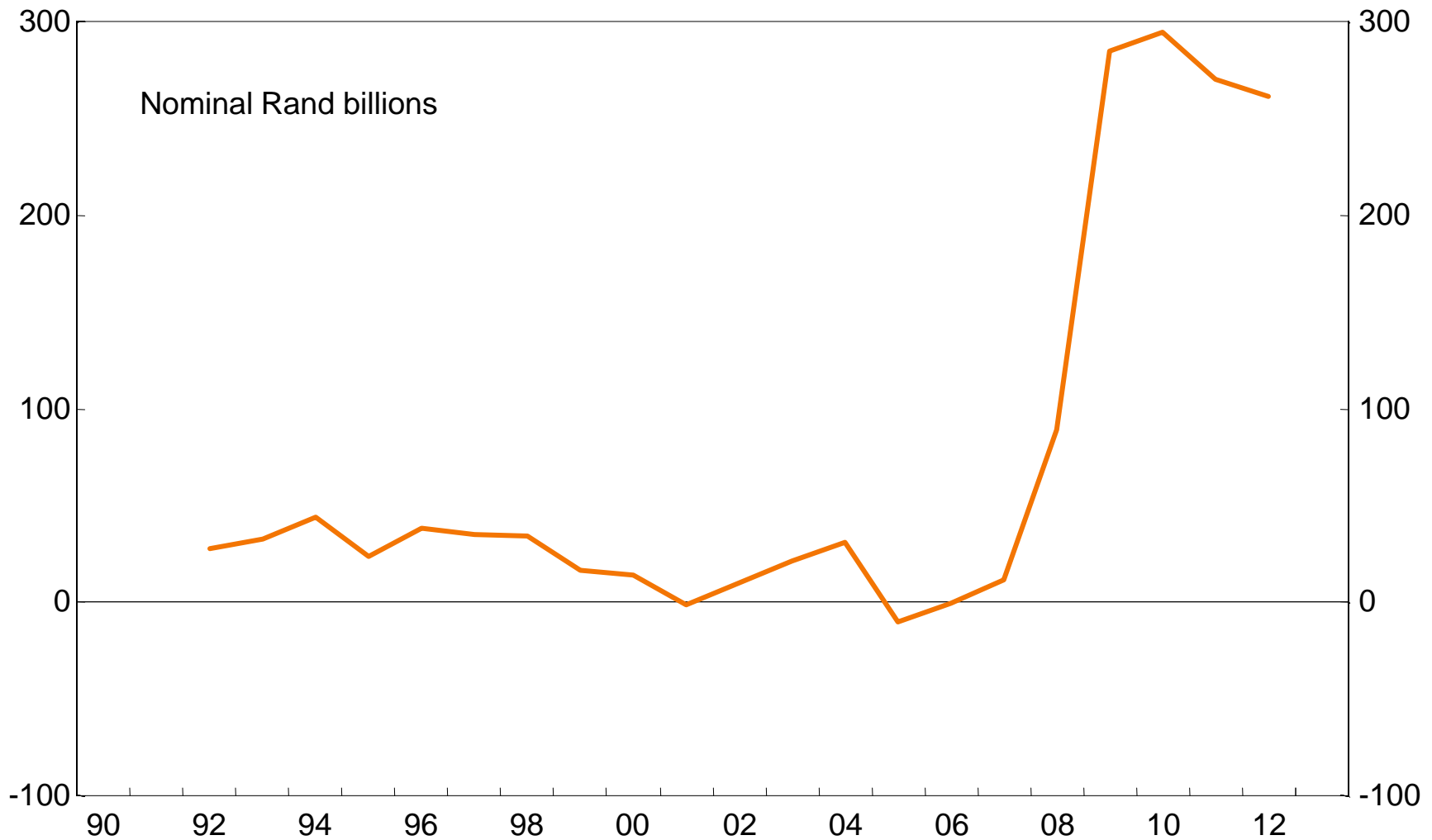
Yield gap measures the difference between bond yields and cash yields and is a leading indicator of economic growth

# Earnings base 30% down

MSI expects 25%+ earnings growth in 2010



# Public sector borrowing requirement



Source: OMIGSA/Iris

# Risks

- ▲ Sovereign Default
  - UK / Japan, PIGS, Argentina / Dubai
- ▲ Double dip
  - Stimulus doesn't work, **earnings disappoint**
- ▲ Policy error
  - Protectionism, Exit too fast
- ▲ South Africa specific
  - Move to the left, electricity, **currency crash**
- ▲ Event risk
  - War, disease, natural disaster



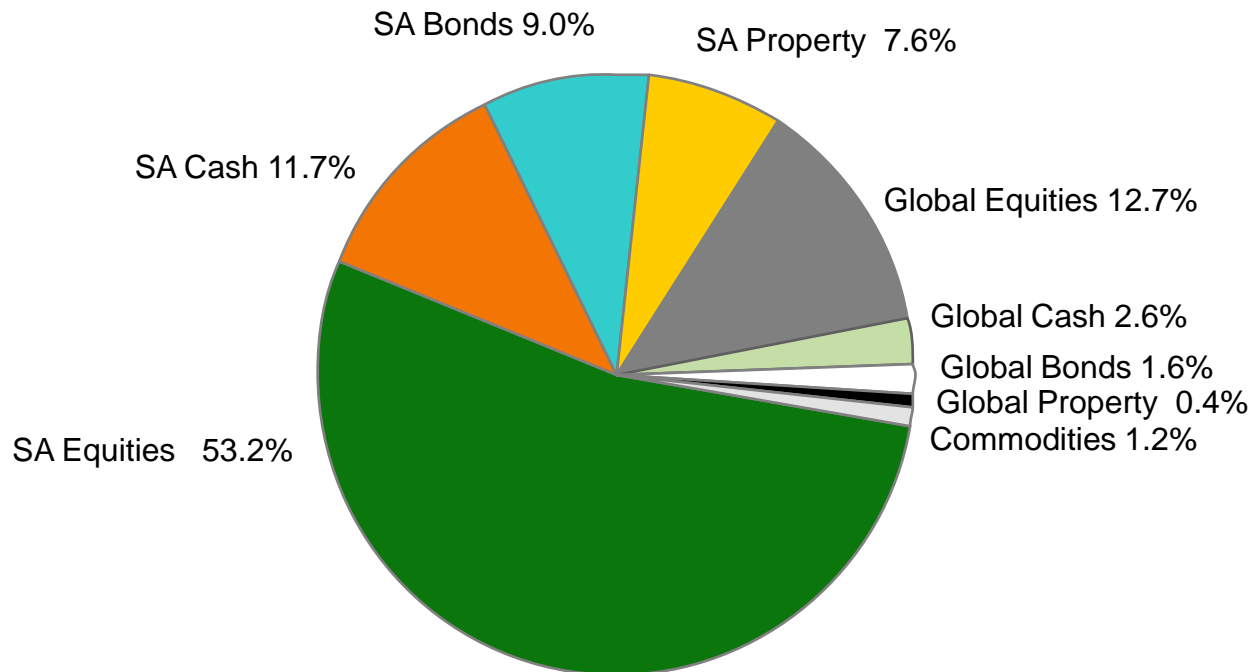
# Conclusion

- ▲ SA returns will be lower in the next decade
  - “Save more”
  - “Look for alpha”
  - “Buy growth”
- ▲ More cyclical = trading market
  - “Maintain a flexible asset allocation”
- ▲ Risk - reward ratio has deteriorated
  - “Do not take on extra risk to catch up”
- ▲ Stick to your roadmap
  - “Keep investing according to your plan”
  - “Boring is good”



# Asset Allocation

## Old Mutual Balanced Unit Trust Fund Effective Exposure as at 31 December 2009



Well diversified; small positive bias to growth



thank you



# Regulatory Information

Performance  
through Focus



## Old Mutual Investment Group (South Africa) (Pty) Limited

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