

## February 2008 – GLOBAL MARKET OVERVIEW

### Global Indices

source: Datastream

Performance	Index	Feb 2008	YTD	12 Months
S&P 500 - \$	1330.63	-3.25%	-9.05%	-3.60%
MSCI AC World - \$	370.411	0.33%	-7.86%	2.82%
DJ Euro Stoxx 50 - €	356.76	-1.05%	-14.01%	-10.19%
FTSE 100 - £	5884.28	0.47%	-8.47%	-1.27%
JPM Global Govt Bonds-\$	423.46	2.40%	6.21%	16.50%
Nikkei - ¥	13603.02	0.08%	-11.14%	-22.73%
JSE All Share-R	30673.74	12.45%	6.15%	21.93%
Rand/USD	7.7662	-3.57%	-13.63%	-6.78%
Rand/EUR	11.7309	-5.57%	-16.96%	-22.39%
Rand/GBP	15.4484	-3.63%	-13.55%	-8.38%
USD/EUR	1.5167	-2.00%	-3.03%	-14.81%
USD/GBP	1.9892	-0.06%	0.07%	-1.50%
EUR/GBP	1.3103	2.41%	3.76%	11.68%
YEN/USD	104.105	2.09%	6.81%	12.14%
US 10yr Govt Bond - \$	3.5303	-11bps	-50bps	-102bps
German 10yr Govt Bond€	3.8886	-3bps	-44bps	-7bps
Gold \$/oz	970.77	5.17%	16.10%	45.07%
Brent Crude \$	100.79	10.02%	7.54%	68.60%

The past month was another tumultuous one on global markets, although the outcome was slightly more muted than that of January. The MSCI World Index managed to squeeze out a small positive return of 0.3%. Emerging markets rebounded from their 12.6% decline in January by posting a 7.3% gain in February. These numbers mask the extreme volatility still present in market behaviour. Investors are still reeling from the sharp correction which started in October 2007. Year-to-date the MSCI World Index has lost 7.9%, the German market is down 16.4%, the UK 8.5%, the US 9.1% and Japan 11.1%.

Economic data remains dismal. In fact we do not expect information flow to improve much over the coming months. Key however remains the actions by the US Federal Reserve and other central banks. At this stage the Fed is mainly acting alone in their attempt to reignite the economy. The Bank of England and the European Central Bank are reluctant to act decisively, citing inflation pressures as their major deterrent. The unprecedented rally in commodity prices of all sorts is reflecting in global inflation, food and oil prices being the main culprits. In the case of the US, the Fed has chosen to ignore current inflationary pressure, bargaining on slowing demand to temper price increases. The BOE and ECB are not convinced. This trade off is one being battled by every major central bank across the globe. Ultimately we believe the BOE and ECB will succumb to increasing pressure by cutting interest rates later this year. A period of elevated inflation across the globe is a real possibility.

We do not believe that the long running bull market in equities is dead, although the current correction will count as significant in history. Equity valuations are simply too attractive at current levels to justify a protracted equity bear market. The subprime crisis and its knock on effects are not yet over and more negative shocks may still follow. This means volatility could remain extreme over coming weeks or even months.

## Inflation, the growing risk

Country	IT Adoption Date	Target Range*	Point	Current Inflation
Israel	Jun 1997 (1992)	1 – 3%	-	3.4% Dec 2007
Czech Rep.	Jan 1998	+/- 1pp	3%	7.5% Jan 2008
Poland	1999	+/- 1pp	2.5%	4.0% Dec 2007
Brazil	Jun 1999	+/- 2pp	4.5%	4.6% Jan 2008
Chile	Sep 1999 (1990)	+/- 1pp	3%	7.5% Jan 2008
Colombia	Sep 1999	3.5 - 4.5% (2008)	-	6.0% Jan 2008
South Africa	Feb 2000	3 – 6%	-	8.8% Jan 2008
Thailand	May 2000	0 – 3.5%	-	1.2% Jan 2008
Korea	1998	+/- 0.5pp	3%	3.9% Jan 2008
Mexico	Jan 2001	+/- 1pp	3%	3.7% Jan 2008
Hungary	Jun 2001	+/- 1pp	3%	7.1% Jan 2008
Peru	Jan 2002	+/- 1pp	2%	4.2% Jan 2008
Philippines	Jan 2002	+/- 1pp	4%	4.9% Jan 2008
Indonesia	Jul 2005	+/- 1pp	5%	7.4% Jan 2008
Romania	Aug 2005	+/- 1pp	4%	7.3% Jan 2008
Turkey	Jan 2006	+/- 2pp	4%	8.2% Jan 2008

*In theory, slowing economic activity should subdue rising prices. Unfortunately the globe is currently struggling with factors influencing food and fuel prices which will not necessarily react to demand easing. By far the biggest concern is the supply-side constraints driving commodity prices higher, not to mention many other problems such as weather, logistics and demographics. That simply means that an economic slowdown will be less effective in reducing prices, as will any increases in interest rates. There are currently 23 countries with an inflation targets in the world. Of the 23 countries, only 7 are actually within their target. Many are well above it, such as the Czech Republic, Chile and Hungary (see attached table). Inflation is a growing risk to the slowing global economy.*

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