

# November 2009 – GLOBAL MARKET OVERVIEW

## Global Indices

source: MoneyMate

Performance	Index	Nov 2009	YTD	12 Months
S&P 500 - \$	1095.63	6.00%	25.83%	25.39%
MSCI AC World - \$	293.67	4.16%	32.62%	37.49%
DJ Euro Stoxx 50 - €	260.35	2.26%	18.21%	19.27%
FTSE 100 - £	5190.68	3.45%	22.01%	26.31%
JPM Global Govt Bonds-\$	477.20	2.86%	6.87%	14.41%
Nikkei - ¥	9345.55	-6.87%	5.49%	9.79%
JSE All Share-R	26894.74	2.13%	28.38%	30.33%
USDZAR *	7.404	-5.19%	-22.27%	-26.44%
EURZAR	11.122	-3.22%	-15.51%	-13.01%
GBPZAR	12.197	-4.78%	-11.13%	-21.03%
EURUSD	1.501	1.96%	7.23%	18.27%
GBPUSD	1.645	-0.02%	12.29%	7.18%
GBPEUR	1.096	-1.94%	4.97%	-9.40%
USDYEN	86.32	-4.17%	-4.79%	-9.64%
US 10yr Govt Bond - \$	3.198	-24bps	+102bps	+28bps
German 10yr Govt Bond - €	3.170	-5bps	+22bps	-9bps
Gold \$/oz	1179.15	12.85%	34.02%	44.11%
Brent Crude \$	76.35	2.46%	102.73%	50.98%

\* Note on currency quotes:

All currencies are quoted as CURRENCY1 vs. CURRENCY2. Percentage movement is the appreciation/depreciation of CURRENCY1 vs. CURRENCY2.

## Global Summary

Leading economic indicators are sending a strong signal of recovery in the global economy. All of the advanced economies are now in one of the two favourable phases of the economic cycle, i.e. expansion or recovery.

- In the United States, growth improved to an annualized rate of 3.5% as reflected in the first estimate of third quarter GDP. Growth was relatively well balanced between the various components of demand. As expected, destocking has slowed significantly which enabled inventories to add 0.9% to growth, the first positive contribution in a year. This trend is likely to continue and should boost GDP growth for at least another two quarters (see chart 1).

Similarly, the freezing of most investment projects has reduced business investment as a proportion of GDP to its lowest level since mid-1992. The third quarter saw an initial increase of 1.1% after a year-and-a-half of contraction, and this trend should continue as manufacturing recovers. Furthermore, residential investment has at last strengthened (annualised growth of 23.3% q/q) after fourteen consecutive quarters of contraction. Although residential investment is still down 18.1% year-on-year, the housing market should continue to improve over the coming quarters as it benefits from new tax credits, low mortgage rates and attractive prices.

Private consumption, which rose 3.4%, after shrinking 0.9% in the second quarter, naturally received a boost over the summer from the "cash-for-clunkers" programme, which enabled car sales to add one percentage point to GDP growth. Consumers are, however, still reluctant to spend against a backdrop of rising unemployment (see chart 2). The jobless rate which exceeds 10%, is at a level not seen since the recession of 1981-82. Business surveys continue to show net job destruction even though some 7 million jobs have already been lost since the US economy entered recession in December 2007. There is, therefore, little chance that household consumption will be the main engine of economic recovery this time. Against this backdrop, the Fed is not likely to raise interest rates in a hurry. Historically, it has tended to raise rates about four months after unemployment peaks and this lag has been increasing over the years.

- The euro zone's economic indicators are still encouraging. In Germany, the IFO business climate index reached its highest level for some time in October. The ZEW index of investor confidence has been relatively flat since August, after rising sharply. Both of these indices are good gauges of expected economic activity. As the euro rises against the dollar, European exports are increasingly under threat. The European Central Bank is focusing on the potential threats to growth and are therefore, similar to the USA, unlikely to raise interest rates in 2010.

- GDP growth in the emerging economies continues to gain pace, as domestic demand plays an increasingly strong role. Fiscal measures and extremely low interest rates are boosting household spending and consumer confidence. Hence, retail sales are still strong. Although the emerging countries are no doubt further ahead in their recovery cycles, they are still growing much slower than their historical trend rates. Their economies will receive a further boost when the engine of foreign demand starts to accelerate. In this environment, we expect only a moderate increase in emerging market interest rates, and only in some countries.

- Finally, the Chinese economy continued to expand at a very impressive annualised rate of 8.9% in the third quarter. Although already quite solid, we expect industrial production to grow even more rapidly over the coming months, spurred by offshore demand. The speculative bubbles that are beginning to appear in some asset classes are forcing Chinese authorities to exercise stricter control over new lending and to implement new regulations to ensure a smooth transition of the economy from expansion at all costs to more balanced and stable growth.

Chart 1 – US ISM inventories index consistent with restocking

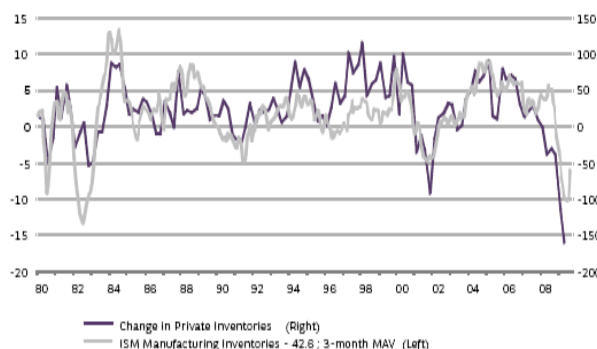
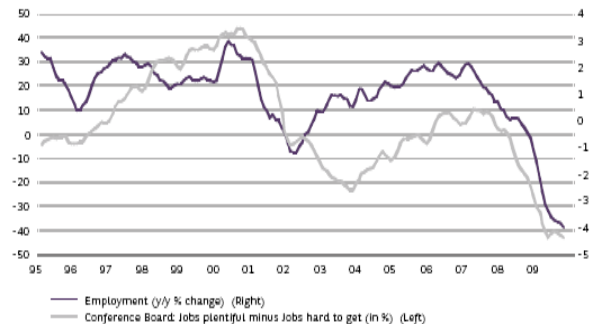


Chart 2 – US employment remains weak



## Earnings and valuations

The 3rd-quarter earnings reporting season, which is coming to an end in the United States, provided near-term support for equity markets. The proportion of surprisingly strong earnings has continued to rise with over 80% of listed firms reporting better-than-expected profits, with no significant difference between financial and non-financial firms. Although massive cost-cutting over the past few quarters, to a large extent, explained why earnings had been so resilient during the crisis, this explanation no longer holds. Sales figures are now also surprising, with 56% of US firms exceeding expectations, after failing to meet very cautious forecasts over the past few quarters.

Although the 25% earnings growth 12-months forward that bottom-up analysts are forecasting for the developed markets, may seem quite optimistic, a cautious estimate still points to double-digit growth over this period. The positive earnings revisions trend should, therefore, continue to support equity markets over the coming months.

## Market impact

Technical factors and investor sentiment are currently supporting equity markets. Although risk aversion has fallen sharply since last winter it is still at historic highs which continue to reflect investor scepticism as to the strength of the economic recovery and the increase in equity prices. Furthermore, market conditions for mergers and acquisitions are increasingly favourable and bode well for a new burst in M&A activity over the coming months. Historically, this has been a supportive factor for equity markets.

Nevertheless, we have not lost sight of the structural and other risks that will certainly weigh on equity markets once again in 2010. When the strong cyclical rebound currently underway has run its course, the outlook for 2010 will be more uncertain. Similarly, unavoidable fading of fiscal stimulus, ongoing debt reduction in the private sector and high unemployment all threaten the strength of the global recovery. Lastly, unwinding unconventional monetary policy measures and, above all, withdrawing the massive liquidity that has been injected into the economy since the crisis began, will not be without risk and, therefore, constitutes a potential source of investor uncertainty and market volatility.

## Conclusion:

The steady improvement in the economic outlook and the still favourable earnings revisions momentum for 2010 continues to underpin equity markets, even though share prices have already factored in much of the cyclical recovery.

Concerns about the longevity of the recovery, which is burdened by high structural constraints, and the strategies that will be employed to wind down exceptionally accommodative monetary and fiscal policies will continue to fuel investor anxiety. However, as long as liquidity conditions remain so favourable, it is appropriate to maintain a reasonable exposure to equities and corporate bonds, as the trend should remain strong.

Important information: This document has been prepared by Insinger de Beaufort Asset Management N.V. and Insinger Investments (S.A.) (PTY) Ltd. on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts stated are accurate and the opinions are fair and reasonable, neither Insinger de Beaufort Asset Management N.V. nor Insinger Investments (S.A.) (PTY) Ltd, nor any director or employee, shall in any way be responsible for any reliance placed on its contents. Past performance is not necessarily a guide to future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed.