



## **NEWS RELEASE**

**3 May 2011**

### **EQUITIES COULD DELIVER DOUBLE-DIGIT GROWTH OVER THE NEXT 12 MONTHS**

#### ***As global inflation inches up, heralding a turn in the interest rate cycle***

Global equities will continue to follow corporate earnings higher, presenting investors with an opportunity for additional gains, despite having almost doubled since their cyclical low two years ago.

Commenting on his economic report for the first quarter of 2011, Francois van der Merwe, Head of Macro Research at Novare Investments, said that despite a range of first quarter shocks - including higher agricultural and oil prices and events in Japan - economic data remains fairly robust, pointing to improving global financial health.

"The recovery in global stock prices has been driven by a huge improvement in corporate earnings. While there is a risk that rising commodity prices could choke growth, we believe that economic expansion will accelerate modestly.

"Equities offer potential double-digit returns, but we expect the rand to depreciate from current levels in the long run. Changing monetary policy is likely to result in interest rate hikes by from late 2011 or early 2012."

Van der Merwe added that many countries are expected to adopt tighter monetary policies as the global economy moves further along the business cycle.

Quantitative easing in the US is expected to run until end June this year, and there are indications that a broad based economic recovery is underway in that country. While surging fuel and food prices are eroding real incomes, households have deleveraged and are better able to withstand the shock.

"Although US business seems reluctant to invest, unemployment is down. The inflation threat

has materialised, but the Fed is likely to keep interest rates lower for longer to allow the housing market to stabilise and employment conditions to improve.

“The US economy should remain buoyant for the next few months, but the housing market is the Achilles heel of the recovery with sales depressed despite a drastic improvement in affordability,” said van der Merwe.

In the Euro-zone, core Europe is being driven by a buoyant Germany while economies on the periphery continue to be dogged by the sovereign debt crisis. Borrowing costs for Greece, Ireland and Portugal are at fresh highs and there is concern that Greece could default on its debt position.

But core Europe, where inflation is also accelerating, should continue to grow.

According to van der Merwe: “Surging food and energy prices are having a pronounced effect on emerging markets with some, like China, having already tightened monetary policy to cool down their over-heating economies.

“In South Africa we have low interest rates, low inflation, expansionary fiscal policy and a buoyant consumer sector. But consumer inflation faces upside risks, especially considering how the strong rand has so far shielded SA from inflationary forces.”

ends

#### **Note**

Novare Investments' First Quarter Economic Report can be obtained at [www.novare.com](http://www.novare.com)