



NEWS RELEASE

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RISKY ASSETS TO PROVIDE BETTER RETURNS THIS YEAR

With most dangers to the global economic outlook already factored into asset prices, the investment environment for more volatile, risky assets like equities should continue to improve during 2012.

Commenting in his economic report for the fourth quarter of 2011, Francois van der Merwe, Head of Macro Research at Novare Investments, said: "With volatility a certainty, it won't be a smooth ride. But exposure to risky assets should contribute positively to investment returns this year.

"The three key issues that will shape 2012 are the European debt crisis, the fiscal position and strength of the US economy, and the Chinese economy's ability to avoid a severe slow-down in economic growth."

Van der Merwe said while company earnings are strong and even though profit margins are expected to be close to peaking, earnings should remain positive. "Coupled with relatively low valuations, global equities should outperform bonds over the next twelve months. Investor risk appetite has been low, and an improved macro-economic environment might just be the catalyst for renewed appetite and a strong bull-run in equities."

He said the SA equity market would be supported by continued low interest rates, firm company earnings growth, resilient domestic demand and attractive valuations. Global developments and international risk aversion pose the biggest threat to the domestic market's outlook, but the probability of these risks and worst case scenarios are diminishing.

Van der Merwe added: "The global growth trajectory has become more uneven. Emerging markets continued to outpace developed market struggling to work through reducing their debt loads. Within developed markets, the US economy accelerated towards year-end compared to Europe which was heading for a recession as financial turmoil and austerity put the brakes on economic output."

In Europe low economic growth will go hand-in-hand with lower inflation and monetary policy easing. However, US economic data in the final quarter showed that manufacturing production had strengthened and retail sales were buoyant. The pace of job creation accelerated, causing the unemployment rate to fall to a near three-year low of 8.5% in December. Economic growth for the third quarter came in at 1.8% and is expected to have increased to above 2% for the final quarter. US money and credit creation has been growing.

Last year, financial markets continued to look towards China as the driver of economic growth. China's growth rate of 8.9% for the final quarter proved better than expected, but concealed a growing imbalance in that investments in the economy made up the largest contribution to growth, while the contribution from consumption has been diminishing.

In 2011 emerging market bourses were impacted by tighter monetary policy and slower economic growth, as well as capital repatriation. As a result, emerging market currencies had their worst year since 1997, despite strong economic fundamentals and the fact that the largest risks to the world economy reside in the developed world. The rand depreciated by 21.9% against the dollar last year, making it the worst performing emerging market currency in the world.

South African was also a prisoner to the global economy with foreign portfolio flows largely determining domestic asset class returns. The FTSE/JSE All Share Index recovered by 8.4% during the final quarter to lift its annual return to a positive 2.6%. Resources performed worst with a decline of 6.7%, while industrial and financial shares gained 10.5% and 6.6% respectively.

The MSCI Global Equity Index returned 7.1% for the fourth quarter to lift its yearly loss to 7.6%. The MSCI Emerging Market Index closed 4.1% higher for the quarter but suffered a 20.4% loss for the year. The US 10-year government bond was the best performing asset during 2011 with a 16.7% gain, followed by Brent crude and German 10-year bunds with returns of 13.9% and 13.7% respectively. Gold provided a 10.1% return for the year.

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Note: Novare Investments' Fourth Quarter Economic Report can be obtained at www.novare.com