



## **NEWS RELEASE**

**27 July 2011**

### **ROBUST SECOND QUARTER EARNINGS COULD KICK START THE NEXT BULL RUN IN EQUITIES**

***Despite slowing momentum, the economic recovery remains intact***

While domestic economic growth can be expected to moderate in line with global trends, South Africa's recovery remains intact with equities, supported by low interest rates and a consumer recovery, on course to continue delivering superior returns.

Commenting on his economic report for the second quarter of 2011, Francois van der Merwe, Head of Macro Research at Novare Investments, said: "The low interest rate environment and the attractiveness of equities relative to bonds will support further share price appreciation. The release of robust second quarter earnings might just be the catalyst to kick-start the next bull-run in global equities."

Van der Merwe said global growth had slowed at a time when inflationary pressures had increased. "Two risks dominate global market concerns as we enter the next quarter: a decisive resolution to the European credit crisis and adjustment to the US debt ceiling. Given the consequences should either of these materialise, we believe officials will eventually make the right decisions. Until that happens, volatility in financial markets will be rife."

He said the global recovery would continue to be a long and fragile process. Emerging markets, however, had been growing at healthy rates with inflation close to peaking in many countries. In contrast, developed countries are expected to continue growing slowly with interest rates remaining lower for longer as recoveries struggle to gain traction and inflation pressures dissipate.

Japan should be the exception to the rule with its economy benefitting from rebuilding after the natural disasters earlier this year. The current economic slowdown that the global economy is experiencing is not expected to deteriorate into a double-dip recession. Rather,

the Japanese recovery, inventory restocking, and a strengthening capital spending cycle around the world will accelerate the economic recovery.

“The soft patch in global growth should prove to be cyclical and we expect company earnings to continue expanding, even though margins may have peaked. We remain overweight global and domestic equities where we believe valuations are not unreasonable and will benefit from the continued earnings recovery,” said van der Merwe.

Novare’s view was that global government bonds had discounted the weaker economic environment and prevailing risks, leaving them vulnerable to positive news. However, real bond yields remain excessively low with government bond valuations unattractive on a relative basis. On the other hand, corporate bonds could provide a substantial yield pick-up.

On domestic bonds, van der Merwe said a less pronounced interest rate hiking cycle and improved valuations had seen Novare move on-weight bonds from an underweight position.

He added: “With the Reserve Bank’s focus on growth it is likely that interest rates will be more accommodative than was expected. Inflation will remain a headache as it is expected to breach the Bank’s upper target, with additional upward pressure from wage negotiations. The breach is expected to be temporary, and while there might be pressure from wage increases and higher food and energy prices, there is little demand led inflation and rand strength should prevent inflation from spiralling out of control.”

Returns over the 12 months to end June were as follows:

MSCI Global Equity Index	27.8%
MSCI Emerging Market Index	24.9%
FTSE/JSE All Share Index	24.6%
JP Morgan World Government Bond Index	10.2%
All Bond Index	11.3%
Cash (SA)	6.2%

ends

#### **Note**

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