



Investment Environment August 2011

Politicians and Markets are a bad combination

The quarter ended 31 August 2011 was as dramatic as the previous quarter, with the developed markets causing investors to behave with a great deal of uncertainty resulting in a loss of confidence in risky assets particularly equities.

The combination of the problems caused by political brinkmanship in raising the US debt ceiling and the lack of clear policy guidelines in responding to the Euro zone debt problems put developed markets into turmoil. In as much as emerging markets, such as South Africa, are performing better economically than the developed world, markets still correlate. The JSE All Share Index shown in the graph below has shown huge volatility correlating to equity markets in general and the problems stated above.



What is also evident from the graph is the last six months have achieved no growth in value and a huge amount of anxiety. However, perhaps amongst all the confusion there is opportunity.

Prior to the debt crises global equities were regarded as attractively priced but bonds were expensive. Ironically, as authorities demonstrated their inability to deal with debt problems, there was a flight to US treasuries which caused this asset to be even more expensive. The market conclusion of lower expected economic growth does imply that interest rates will stay low for longer. There is also an increased risk of stagflation which makes cash and bonds even less attractive. Equities have proven to be the only asset class capable of giving real returns during stagflation and in the current environment where the prices have been significantly suppressed, the opportunity of taking advantage of this exists for the brave. For those who are prepared to segment the equity market cyclical stocks, like Anglo American and BHP Billiton have been hit harder in the decline than the defensive companies like SAB or Tiger Brands and therefore offer even more value.

So while volatile markets will be around for some time it is an opportunity to be adding equities (particularly cyclicals) on the dips. Good investing will take courage and a long term view.