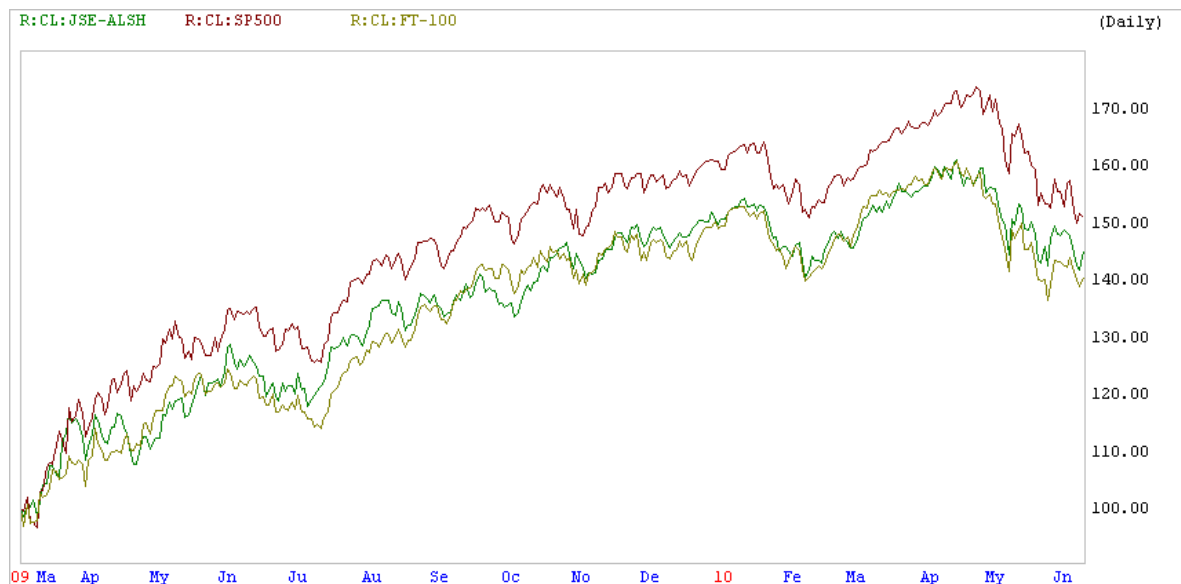




## Investment Environment May 2010

The first quarter of the fiscal year ending February 2011 has really dampened the enthusiasm for equities and other risky assets. The significant recovery in markets from the March 2009 low to February 2010 appeared to have momentum into the current year but a significant correction has taken place since the beginning of May. The graph below shows the FTSE - JSE AllShare Index (green), the FTSE – 100 (gold) and the S&P – 500 (red) rebased to 100 at 1 March 2009. Effectively equities across the South African, UK and US markets were highly correlated and based on the international events culminating in the Greek crisis, markets simultaneously corrected in May. The saying “Sell in May and go away” held horribly true!



The drama in Greece has demonstrated to investors that the debt crisis goes far beyond consumers and has been raised to a sovereign level. While Greece is a small part of the EURO and European economy, the seriousness of the situation has been demonstrated by the surprisingly co-ordinated efforts of the IMF and European Union to effect a bail out. This has caused the major European economies to embark on a fiscal tightening which to an extent has been contradicted by the US calling for greater spend to stimulate the fragile world recovery. While the spectre of a “double-dip” recession for the world economy could be a reality, considerable effort by central banks and governments are being made to avoid this. It would appear that the best that can be hoped for from the US and Euro zones is subdued economic growth.

However, for Investors who attended our Investor Meeting on 1 June, the positive bullish sentiment of Dr Roelof Botha might provide some hope. While the graph above shows the high correlation between equity markets it also demonstrates that the JSE correction has been driven by external Western market events. Yet it seems the underlying South African economy and performance of the JSE listed companies remain positive. The South African economy is in far better shape than many international markets that have declined on the back of the Greek and Euro crisis. Emerging markets might finally decouple from Western markets and their superior economic performance might lead Investors to target such markets as an oasis of growth and economic stability. South Africa could be a beneficiary of this as we have maintained real interest rates, have a subdued inflation and returned to positive GDP growth in the first quarter of 2010. This, combined with the resource based economy and the World Cup euphoria, might cause South African equities to break the high correlation referred to above. In simple terms, the current correction could be regarded as a buying opportunity.