

GRINDROD ASSET MANAGEMENT INVESTMENT REVIEW – DECEMBER 2009

"Bottoms in the investment world don't end with four-year lows; they end with 10- or 15-year lows."

Jim Rogers, co-founder of the Quantum Fund with George Soros

ECONOMIC OUTLOOK

During 2009, policymakers throughout the world successfully averted a global depression. After the collapse of Lehman Brothers and the subsequent credit crisis, central bankers cut interest rates aggressively (virtually zero in the US – see chart 1), while politicians approved fiscal stimulus packages valued in the trillions of dollars. The result was a short, albeit deep recession, in most countries. While the worst of the economic slump appears behind us, we are not out of the woods just yet.

Despite the fact that the world economy has been expanding since the 3rd quarter of 2009, unemployment has continued to rise (chart 2) and consumers remain reluctant or unable to borrow from banks (chart 3). Many economists and policymakers have been warning that the recovery will be both jobless and creditless and this certainly appears to be the case at the moment. The result will be a slow and bumpy recovery, particularly in the developed world where household indebtedness was particularly high prior to the credit crisis.

Index	Dec%	12m%	YTD %
Dow Jones	0.8	18.8	18.8
S&P 500	1.8	23.5	23.5
FTSE 100	4.3	22.1	22.1
EuroStoxx50	6.0	21.0	21.0
Nikkei 225	12.8	19.0	19.0
Hang Seng	0.3	52.1	52.1
Australia	3.5	33.4	33.4

Source: I-Net Bridge

Developing economies appear to have weathered the storm slightly better than their developed market counterparts, although South Africa is a notable exception. China appears well on the road to recovery and is forecast to grow in excess of 9% per annum over the next 3 years, according to the IMF. There are, however concerns that China's stimulus efforts are creating asset bubbles similar to those that lead to the credit crisis in the rest of the world.

A key concern for market participants in 2010 will be the removal of the stimulus currently supporting economic growth. Countries like Australia and Norway have already started raising interest rates, on the back of a stronger than expected recovery in their economies, but the US, Europe and Japan are likely to keep interest rates lower for longer - at least until their respective economies are no longer shedding jobs. Once the stimulus has been removed, we will get a better idea of whether or not policymakers have been successful.

MARKET OUTLOOK

In a strong finish to the year, most global equity markets registered positive returns in December, with Japan's 12.8% return the standout. For the year as a whole, the MSCI World Index returned 27%, its best calendar year performance since 2003. Despite the strong recovery this year, the first decade of the new millennium will not be remembered fondly by equity investors (chart 4). Over the past 10 years, world equity markets have fallen approximately 18% and have been characterised by exceptionally high levels of volatility.

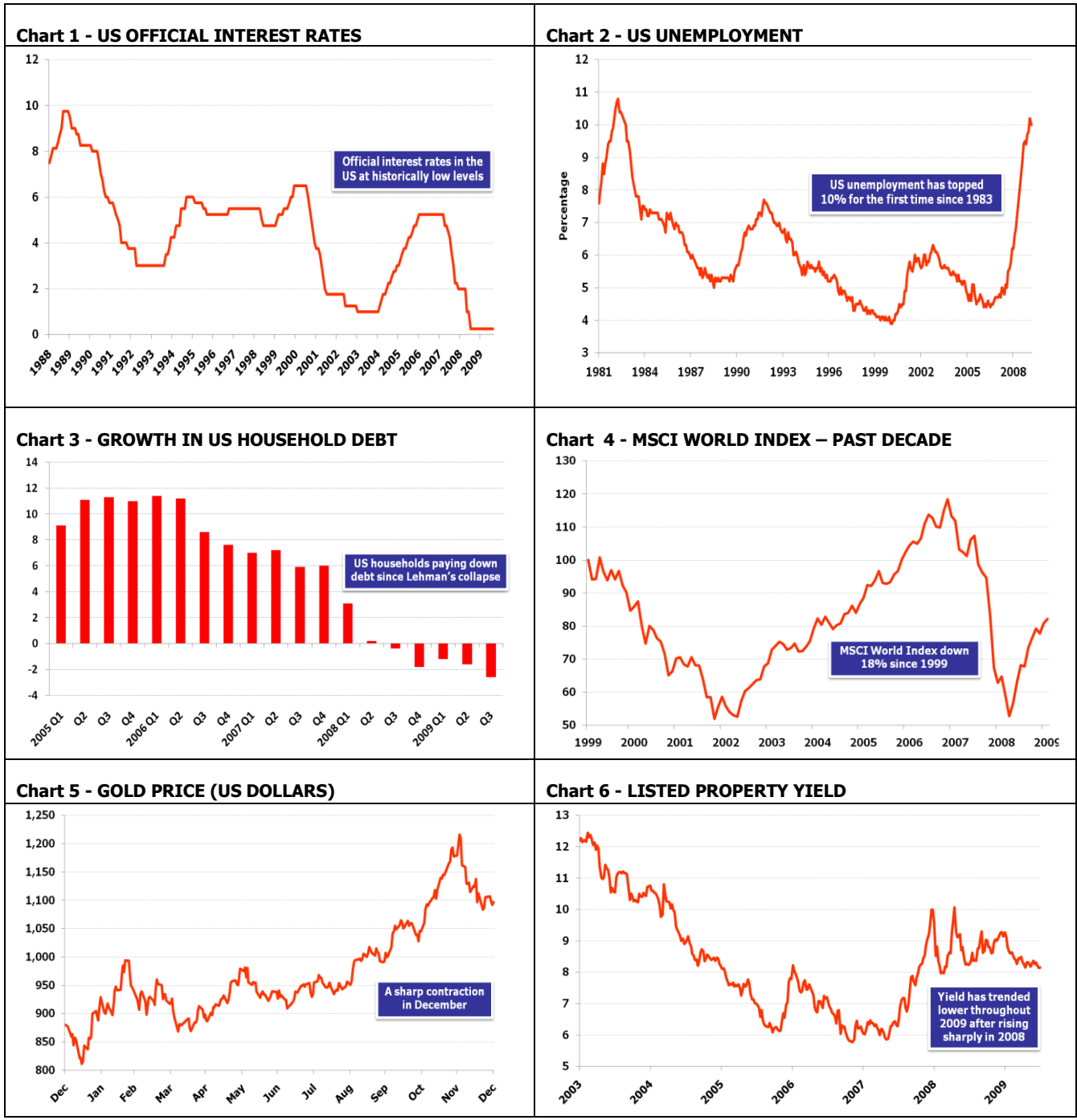
Although current valuation metrics suggest most equity markets are fairly-valued, uncertainty surrounding the extent of the earnings recovery in 2010 makes forecasting equity market returns extremely difficult. If the economic recovery is able to gather momentum in 2010, the earnings recovery will be robust and equity markets will in all likelihood continue rallying. If however the global economy falters again, expect a significant pull-back in stock prices and a resumption of the bear market started in 2000. Bond markets will be under pressure as governments issue new stock to fund revenue shortfalls.

Index	Dec%	12m%	YTD%
All Share	2.9	32.1	32.1
Resources	2.5	35.4	35.4
Financials	2.9	28.0	28.0
Industrials	4.2	21.7	21.7
Property	1.6	14.1	14.1
Bond	1.2	-1.0	-1.0
Cash	0.6	9.1	9.1

Source: I-Net Bridge

South Africa's equity market followed the global trend and finished the year on a positive note. Despite a sharp fall in the gold price (chart 5), the Resources sector was boosted by large increases in the prices of base metals and a recovery in the oil price. For the year as a whole, the Resources sector returned 35%, helping the JSE All Share Index to a 32% return. The returns from the Resources would have been higher, had the Rand not strengthened as much as it did during the course of the year. The Rand gained almost 30% against the US Dollar, 25% against the Euro and 15% against the British Pound.

The bond market was the only loser in 2009, generating a negative 1% return for investors as the market digested the news of higher budget deficits in the years ahead. Listed property proved surprisingly resilient despite the obvious increase in vacancy rates and downward pressure on rentals. Distribution growth exceeded inflation, while the sector's historic yield finished the year at a relatively low 8.3% (chart 6), in line with government's benchmark R157 bond.



Disclaimer
 This presentation has been compiled by Grindrod Private Clients ("GPC"), a division of Grindrod Bank Limited ("GPC"), which is a wholly owned subsidiary of Grindrod Financial Holdings Limited. It is confidential and presented as a general information service to the addressee only and therefore should not be considered to be investment advice. Accordingly, it contains no recommendation (whether express or implied), guidance, or proposal that any particular security is appropriate to the investment objectives, financial situation or particular needs of the addressee. Conflicts of interest may exist with any one or more of the securities recommended in this presentation, which include situations where the author/s of the presentation or a member of his/her family owns a direct interest in securities issued by a company mentioned, an employee of GPC acts as a director of a company mentioned in the presentation, GPC owns securities in a company mentioned in the presentation, or GPC receives compensation for providing financial services to a company mentioned in the presentation. This presentation shall not be reproduced in whole or in part, without GPC's permission. The information contained herein has been obtained from sources which, and persons whom, we believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Any opinions expressed are subject to change without notice. While care has been taken in the preparation of the information contained in the presentation, GPC will not be liable for any loss or damage of any nature arising from this presentation, or incurred as a result of acting on the contents thereof.

Grindrod Private Clients, a division of Grindrod Bank Limited is an Authorised Financial Services Provider (License 6317) and Credit Provider (NCRCP No.25).