

GRINDROD ASSET MANAGEMENT INVESTMENT REVIEW – MARCH 2010

*"The underlying principles of sound investment should not alter from decade to decade, but the application of these principles must be adapted to significant changes in the financial mechanisms and climate."
Benjamin Graham*

ECONOMIC OUTLOOK

Despite encouraging signs that companies in the US are hiring again, the supply of new jobs is not keeping pace with increases in the number of people actively seeking employment. Consensus among US economists is that there are more than 5 job seekers per new opening, a level significantly higher than in previous recessions, but lower than in November last year. The US unemployment rate, which currently stands at 9.7% (chart 1), is likely to increase in the months ahead as people who have lost their jobs and were discouraged from actively seeking employment, start applying for positions again (in the US, you have to be actively seeking employment to be considered unemployed – if you've lost your job and are not looking for work you're not considered part of the labour force).

A recovery in labour market conditions across the globe is critical to sustaining the economic recovery which so far has been engineered through a combination of low interest rates and fiscal stimulus.

| Index | Mar% | 12m% | YTD % |
|-------------|------|------|-------|
| Dow Jones | 5.1 | 42.7 | 4.1 |
| S&P 500 | 5.9 | 46.6 | 4.9 |
| FTSE 100 | 6.1 | 44.7 | 4.9 |
| EuroStoxx50 | 7.4 | 41.5 | -1.2 |
| Nikkei 225 | 9.5 | 36.8 | 5.2 |
| Hang Seng | 3.1 | 56.4 | -3.0 |
| Australia | 5.2 | 38.5 | 0.2 |

Source: I-Net Bridge

The Euro remained under pressure in March (chart 2), particularly after Fitch downgraded Portugal's sovereign credit rating to AA- on the back of budgetary underperformance in 2009. At the same time, Fitch warned that unless the necessary austerity measures were implemented in 2010 and 2011, further downgrades were possible.

In countries where economic growth has recovered to pre-crisis levels, like in China and India, authorities are slowly withdrawing the monetary and fiscal stimulus which was necessary to drive the recovery. India's central bank unexpectedly raised official interest rates from record lows, citing rising inflation in Asia as the major reason behind the move. This follows similar moves by central bankers in Australia, Malaysia, Norway and India, while Chinese authorities have also taken steps to limit the growth in credit extension to consumers amid signs of rapidly rising house prices. For many first world countries, the economic outlook remains uncertain and authorities are likely to leave interest rates at their historically low levels for the remainder of this year.

MARKET OUTLOOK

Global equity markets rallied in March driven partly by the better than expected economic data out of the US. As a result, only Europe and Hong Kong remain in negative territory since the start of the year. The expected strong recovery in corporate profitability and low interest rates are encouraging investors to switch out of less risky investments like cash and into equities. Emerging markets continue to outperform their developed market peers (chart 3), which is not surprising given the fact that most emerging market economies have staged remarkable recoveries since the crisis, with many now growing at pre-crisis levels.

Global bond yields rose slightly in March, although the yields on longer dated US treasuries rose more than 25 basis points as investors switched into equities. Bond markets are likely to come under pressure once official interest rates start rising either later this year or early next year. At the same time, investors are likely to get more clarity on the extent of new government issuance to fund stimulus efforts while tax revenues are declining.

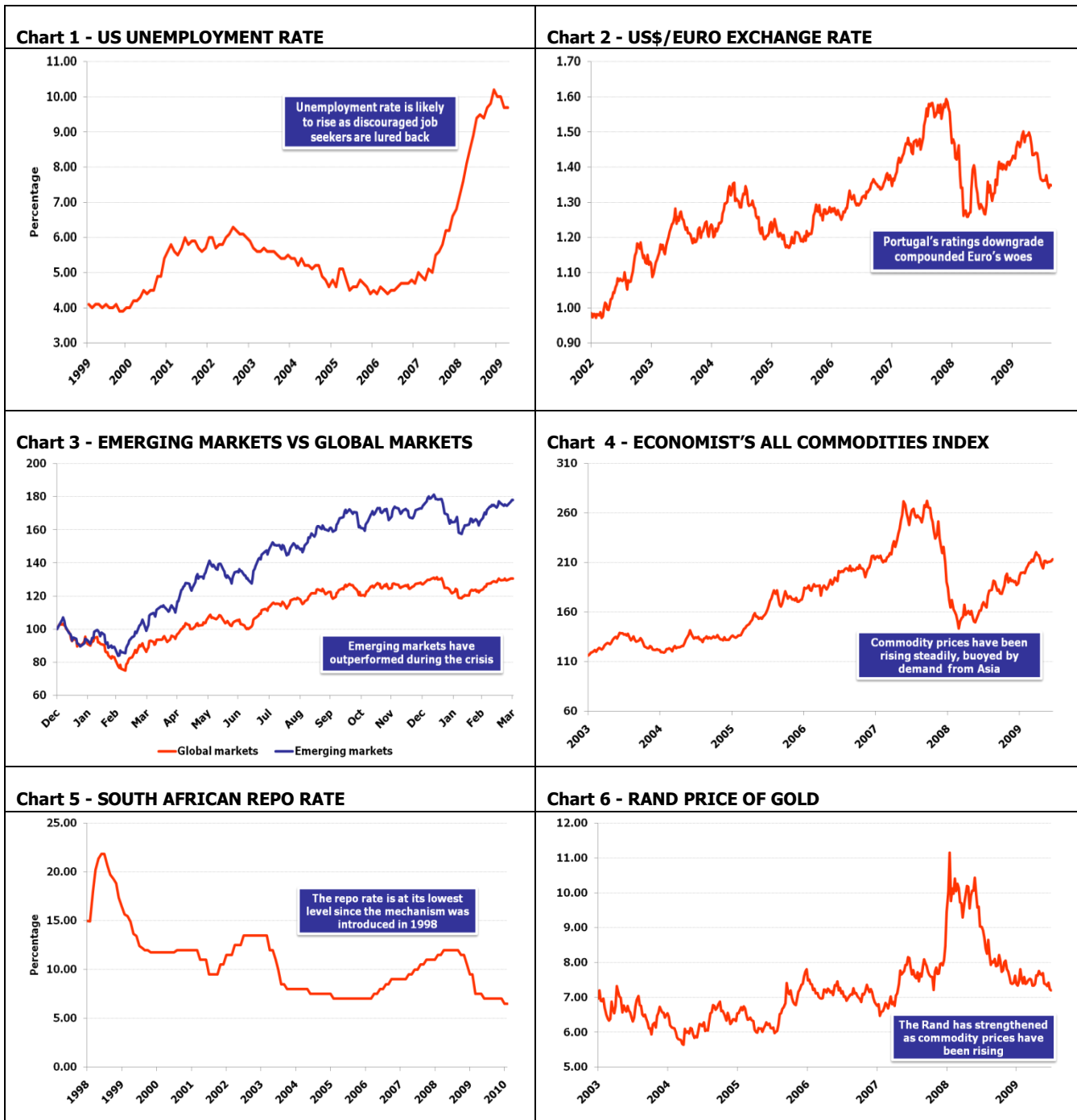
| Index | Mar% | 12m% | YTD% |
|-------------|------|------|------|
| All Share | 7.9 | 44.1 | 4.5 |
| Resources | 10.2 | 36.1 | 2.1 |
| Financials | 7.4 | 51.3 | 9.9 |
| Industrials | 5.8 | 50.2 | 4.4 |
| Property | 4.1 | 27.1 | 9.9 |
| Bond | 2.2 | 9.0 | 4.4 |
| Cash | 0.6 | 8.1 | 1.8 |

Source: I-Net Bridge

South Africa's equity market followed global markets higher. In US dollar terms, our market was one of the strongest performers in March on the back of rising commodity prices (chart 4) and an increase in investors' appetite for risk. Interest-rate sensitive sectors like Banks and Retailers were buoyed by the surprise decision to cut the repo rate by 50 basis points (chart 5). The Monetary Policy Committee of the SARB indicated that the strengthening Rand (chart 6) had provided a window of opportunity to cut interest rates further in an effort to stimulate economic growth and create jobs.

Bond yields declined on the back of the interest rate decision and have now outperformed cash over the previous 12 months. Listed property returns were also boosted by the rate cut and the sector remains South Africa's top performing asset class year-to-date. The current forward yield for the sector is 8.6%, which is more or less in line with longer dated government bonds. Despite deteriorating property fundamentals, the listed property sector appears in good shape and distribution growth is expected to average 7% per annum over the next 3 years.

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