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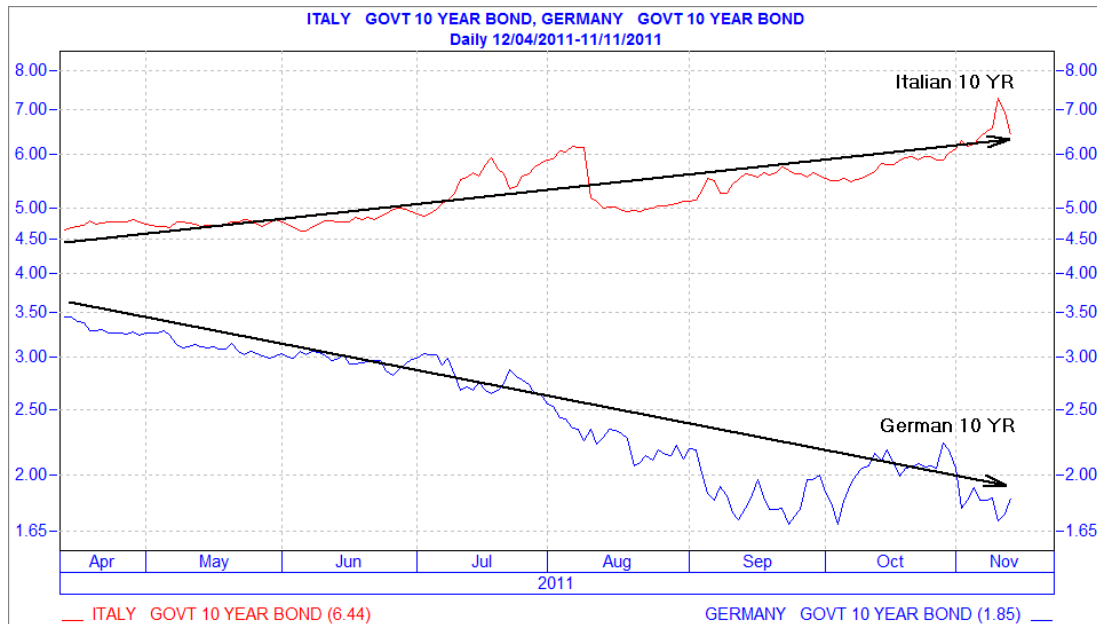
# PERSONAL TRUST MARKET UPDATE

November 2011

## **International Market**

The troubled European Union continues to take centre stage and hold the attention of investors. As a result of the constant news flow, volatility remains extremely high as portfolio managers shift from risk-on to risk-off mode and back again. The fact is the world is a noisy place. It is impossible to keep up to date with every piece of information and a fool's errand pre-empting short term market movements.

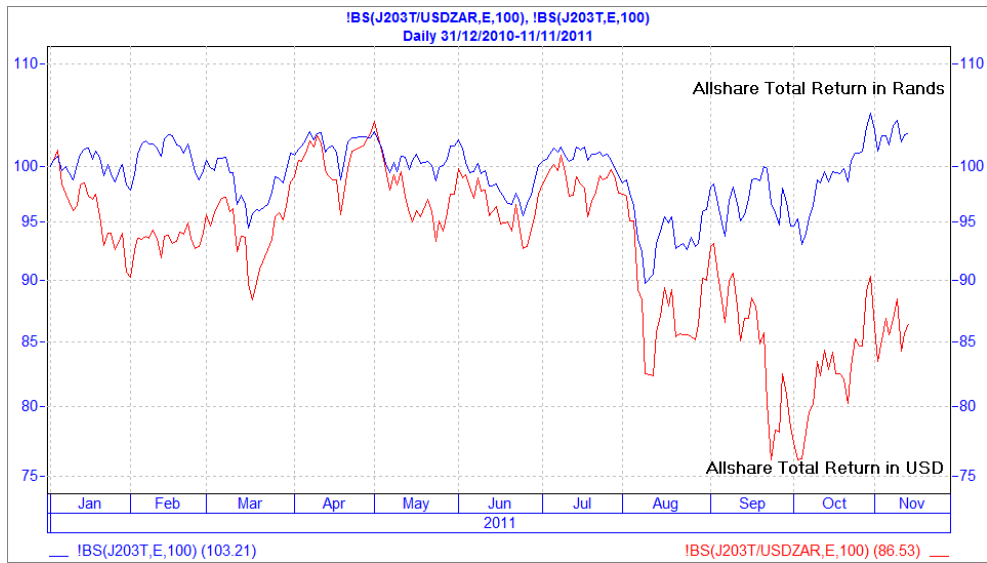
The recent period has been littered with attempts by European leaders to solve the problems facing the monetary union. However, it is reasonable to think that the issue of solvency facing the peripheral member states will be addressed with the help of countries with stronger balance sheets (the likes of Germany or possibly even the IMF). The harder, more challenging problem of competitiveness remains though – currency depreciation under the current structures of the EU is not possible. How leaders deal with these issues will drive markets in the short term. The graph below illustrates the widening borrowing cost between the peripheral members (represented by Italy) and the core (Germany):



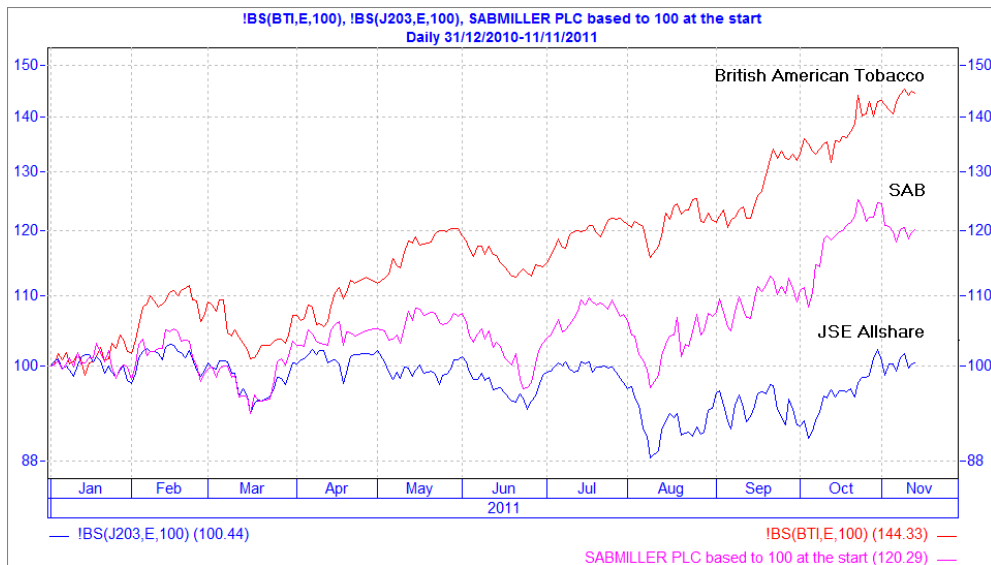
The extent of the problem is best illustrated by examining the implications: Italy will need to re-finance €300 billion in debt next year – loans on which they are currently paying around 3% interest. At 6-7% the incremental increase and additional strain on the government fiscus is somewhere in the region of €12 billion. The simple math suggests that at these rates of interest and amidst a backdrop of zero growth Italy – together with other peripheral states in a similar situation – is going to find it incredibly difficult to achieve such payment.

### Local Market

Amidst all the macro toing and froing, our market seems to have held up remarkably well over the past three months. This is partly due to the fact that our currency has borne the brunt of the sell off and partly due to the defensive nature of a large portion of the JSE constituents. There has been a massive switch from cyclical counters to those with more defensive earnings streams (include the gold mining companies in this basket as their earnings profiles reflect the defensive nature of the yellow metal).



The above illustrates how the depreciation of the rand cushioned the blow to the South African market. In early October the JSE, when measured in US Dollars, was down roughly 25% YTD whilst only 7% lower in local currency terms.



The graph above demonstrates the extent to which defensive constituents of our local bourse outperformed the broader market. Please note that BAT is currently not a constituent of the Allshare Index. However, this is set to change in the not too distant future. I show it above as it forms a large part of the majority of Personal Trust's discretionary portfolios and Unit Trusts.

## Summary

The situation in Europe is fluid in the extreme and the world, collectively, is holding its breath. However, recent developments have been positive – the appointments of Mario Monti as Prime Minister of Italy and Lucas Papademos, who as central bank governor in 2002 oversaw his country's entry into the Euro Zone, as Premier of Greece. The question on everyone's lips is : Can they succeed where their predecessors failed?

## Quarterly Index Returns

01 August 2011 – 11 November 2011

	Period	YTD	1 Year
JSE	4.88	3.31	5.31
Resources	6.47	-1.82	-1.34
FINI15 Index	3.15	2.56	3.42
INDI25 Index	4.47	9.36	13.63
Listed Property Sector	2.49	7.00	7.59
MSCI Emerging Market (\$)	-14.08	-13.76	-12.68
MSCI World (\$)	-6.97	-3.56	-0.83
S&P 500 (\$)	-1.53	2.28	6.29
FTSE 100 (£)	-3.45	-2.83	-1.14
R/€	-13.10	-22.65	-14.79
R/£	-15.70	-22.79	-13.62
R/\$	-18.61	-19.72	-14.39
\$/€	4.50	-2.73	-0.61
\$/£	2.20	-2.90	0.36
Brent Crude Spot \$	-2.03	19.95	24.77
Platinum Spot \$/Oz	-7.64	-7.10	-6.32
Gold Spot \$/Oz	9.88	25.89	26.98
Gold Spot R/Oz	29.61	51.02	44.47
RSA All Bond Index	4.19	8.06	7.55
JP Morgan Global Bond Index	0.58	6.68	5.04
US Government Treasury - 10 Year	26.45	37.56	22.24