

Investment outlook

“It’s a (tough) new world !”

Chris Hart – Chief Economist



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“It’s a (tough) new world”

Agenda ...

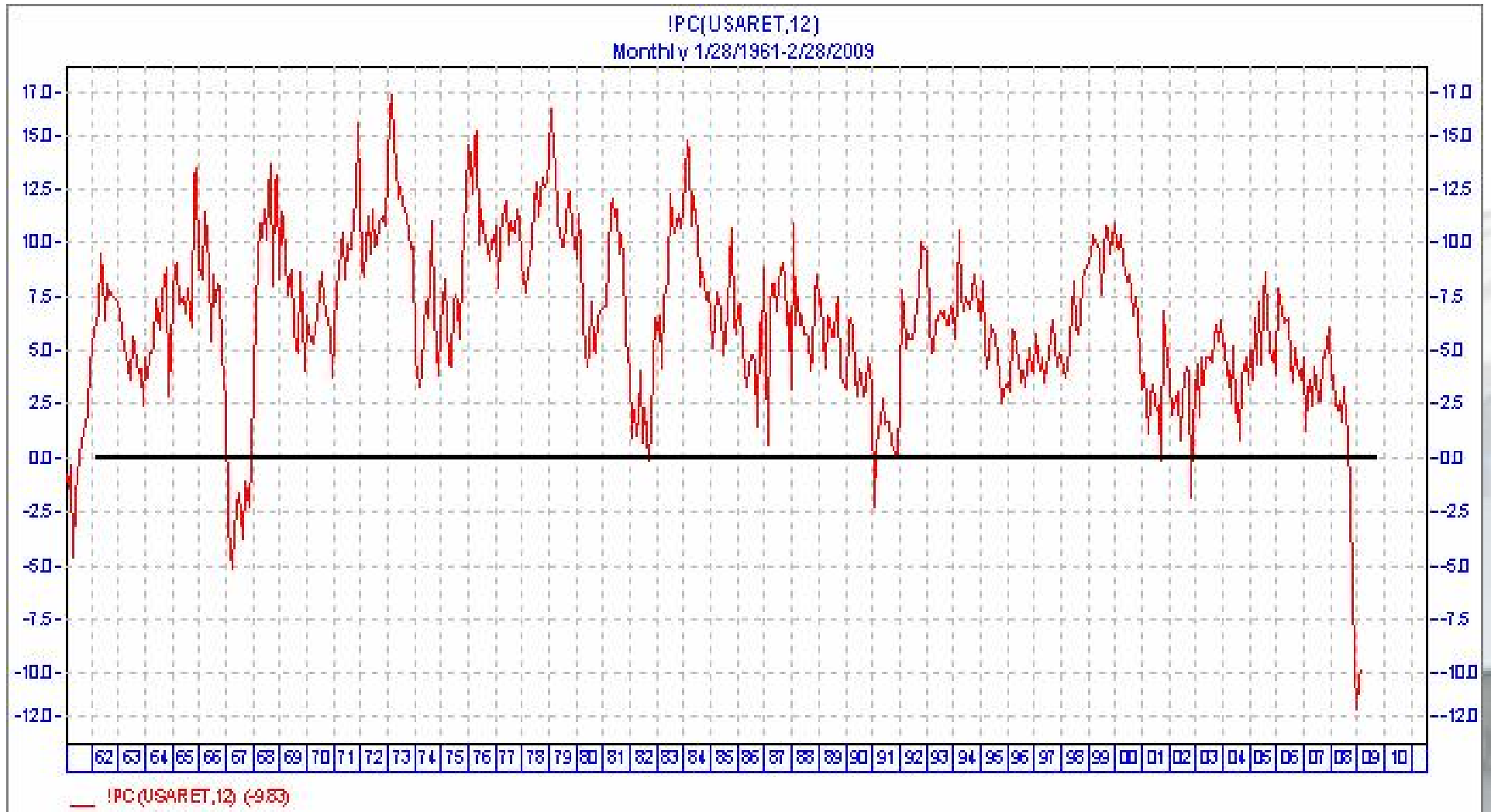
- Background
 - What has transpired
 - Policy response & consequences
- The “Tale of 2 regions”
- How to respond
- Conclusion





“It’s a (tough) new world”

US retail sales: “Falling of a cliff” ...





“It’s a tough new world”

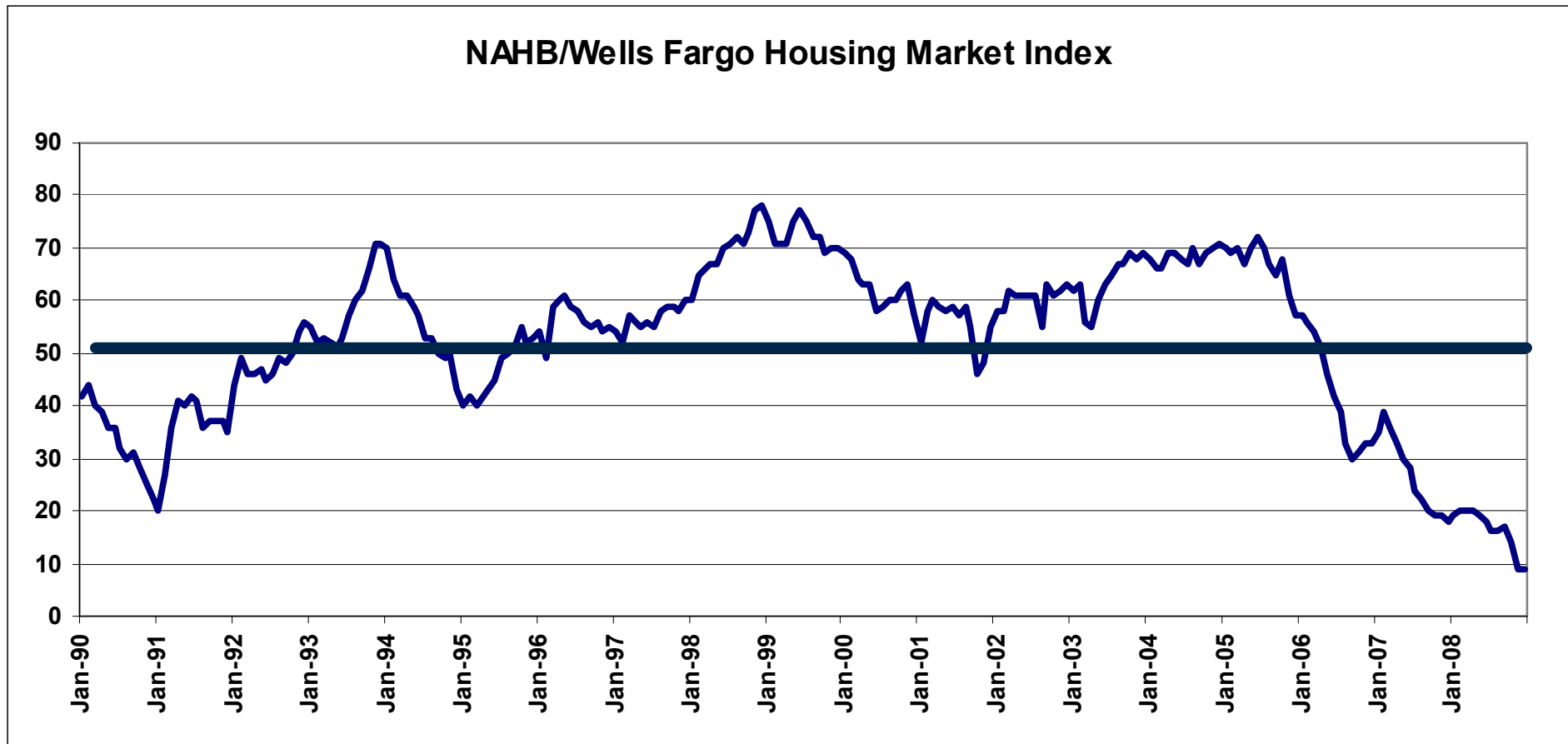
Gone global - Industrial production ...

Country	US	UK	Japan	Eurozone
Industrial production	-10.0% Jan 09	-11.4% Jan 09	-29.9% Jan 09	-12.0% Dec 08
Country	China	India	Russia	Brazil
Industrial production	+5.7% Dec 08	+2.4% Nov 08	-10.8% Dec 08	-6.2% Nov 08
Country	Spain	S.Korea	Taiwan	South Africa
Industrial production	-17.2% Nov 08	-14.1% Nov 08	-32.3% Dec 08	-11.1% Jan 09



“It’s a tough new world”

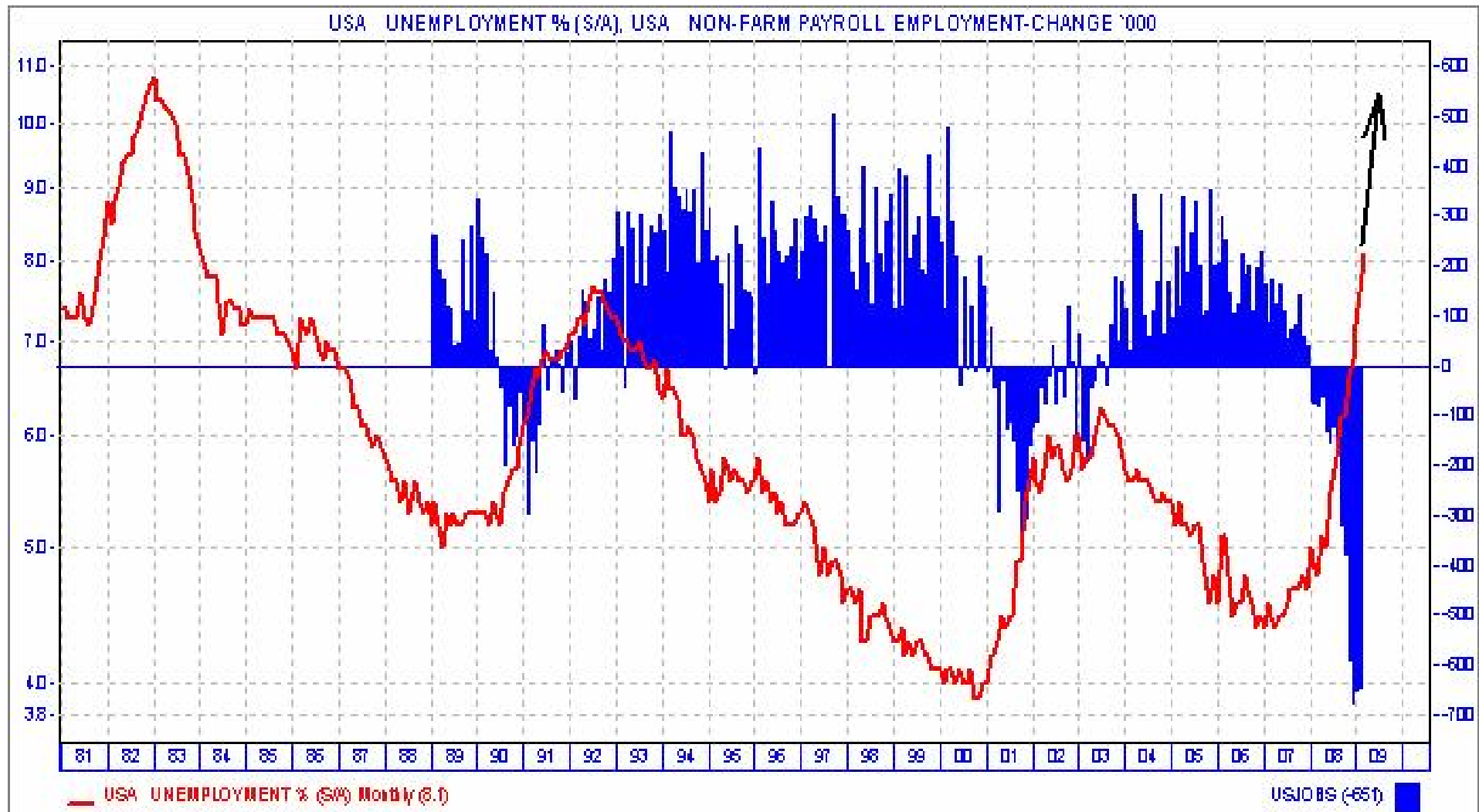
US housing market ...

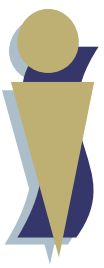




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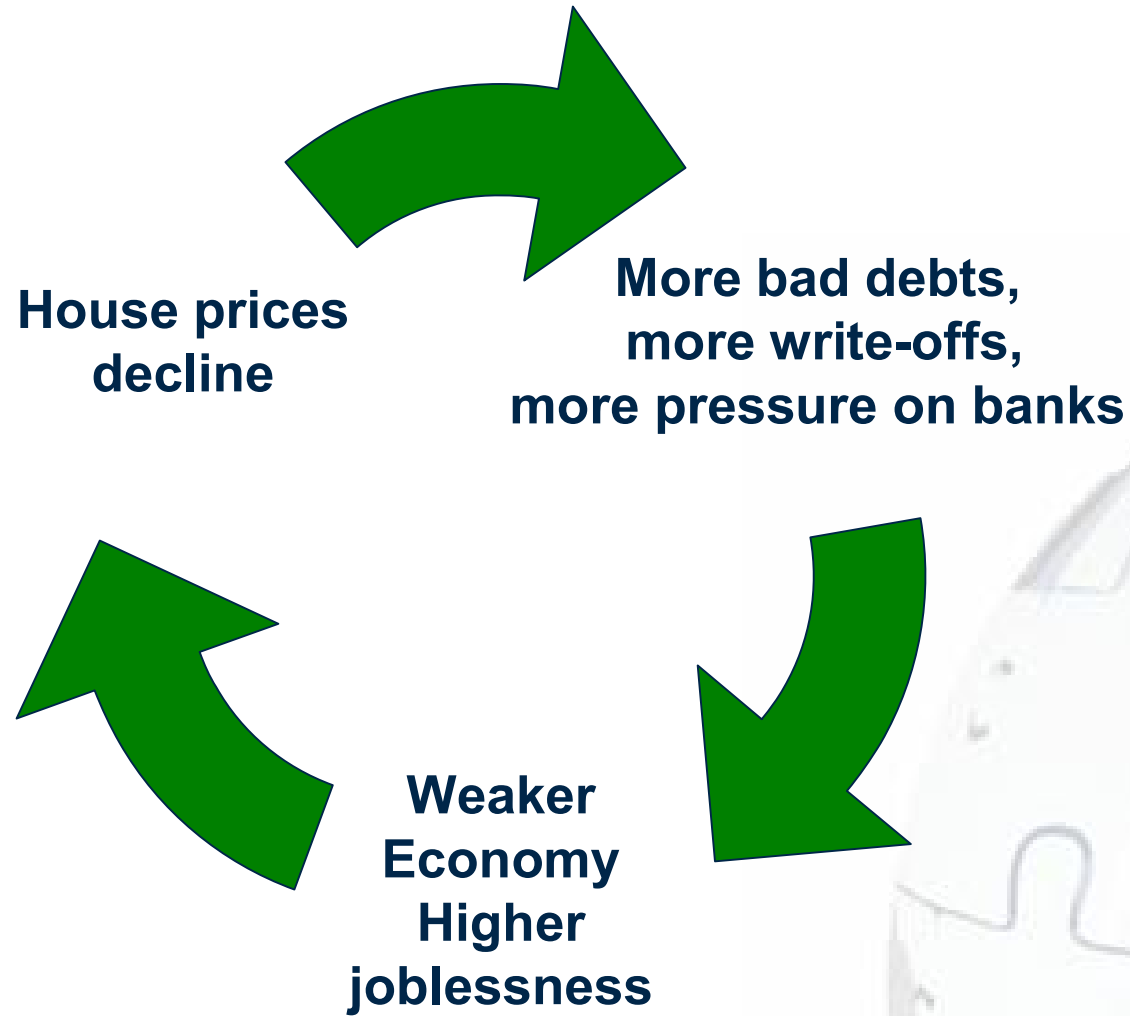
US unemployment ...





“It’s a tough new world”

Vicious circle: still being reinforced ...





“It’s a tough new world”

“The bear is in the box” – Gone global ...

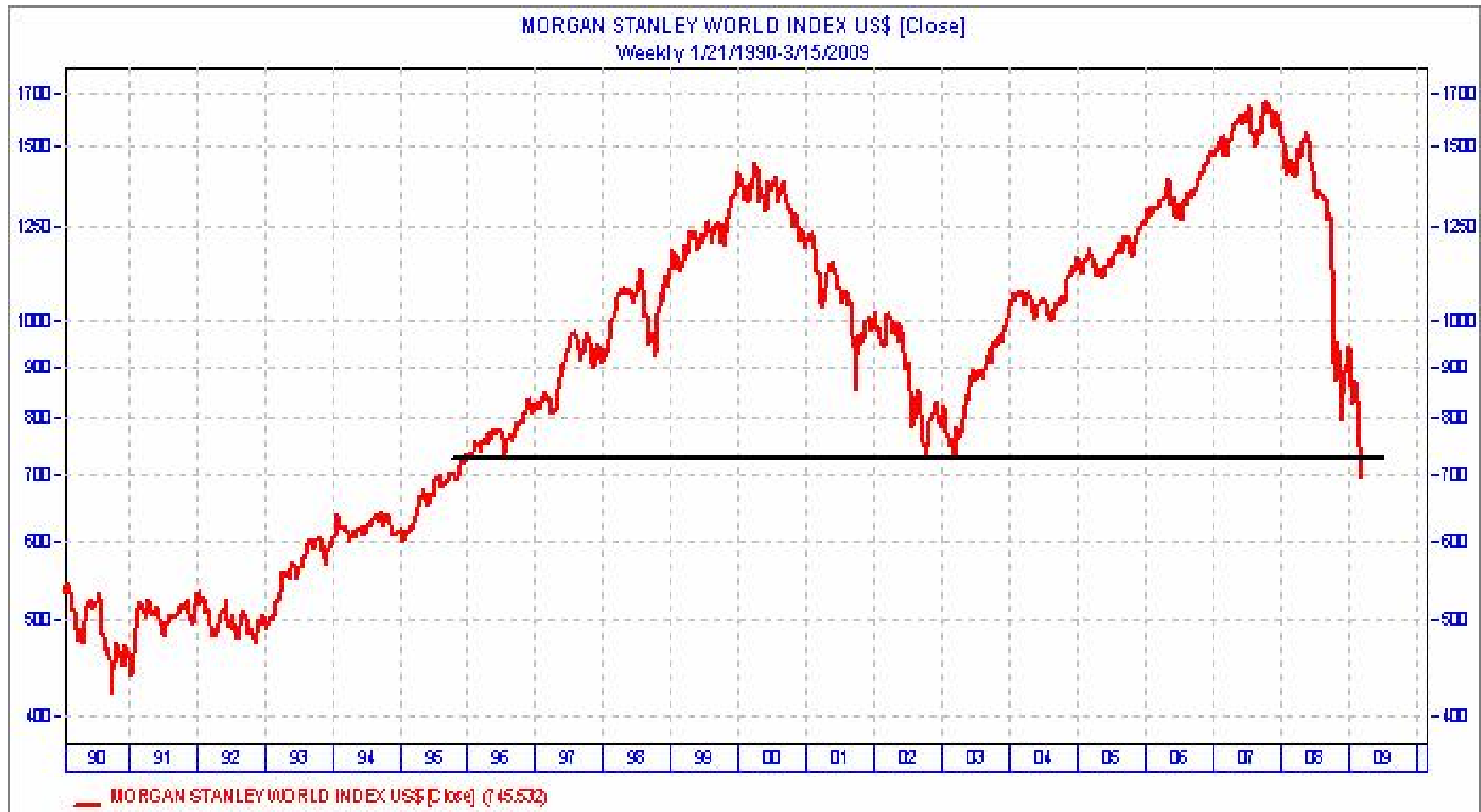
\$ returns, 12mths for calendar 2008

Market	Move	Market	Move
Nikkei	-27.8%	FTSE100	-49.3%
S&P500	-38.5%	Australia	-55.2%
MSCI	-42.1%	Bovespa	-55.8%
Dax	-42.8%	Kospi	-55.9%
CAC40	-45.0%	Bombay	-61.4%
JSE	-46.9%	Shanghai	-63.0%
Hang Seng	-47.9%	Russia	-76.4%



“It’s a tough new world”

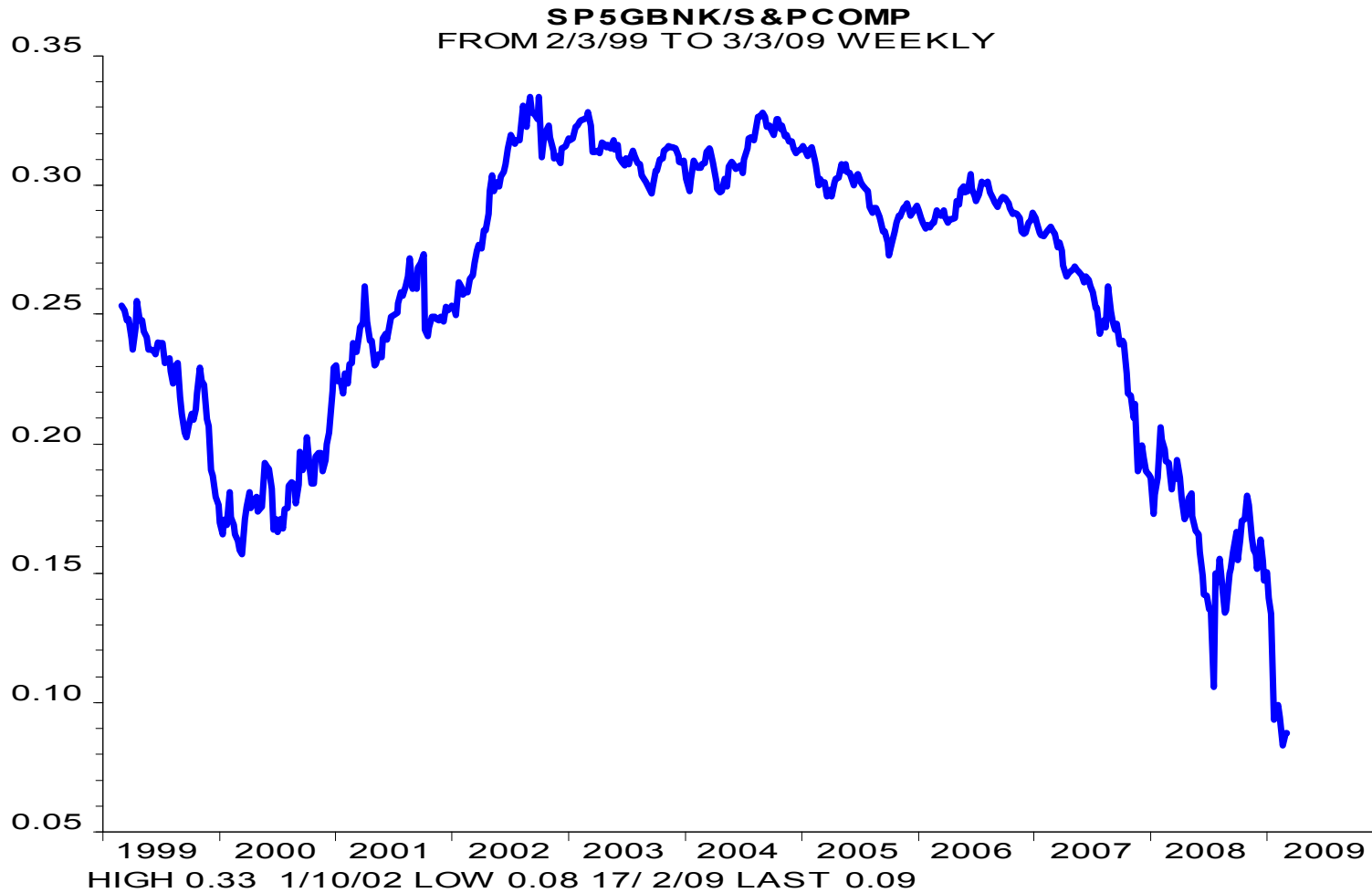
“The bear is in the box” – Breaking key technical levels ...





“The bear is in the box”

Banks relative to S&P500 - Leading the market down ...

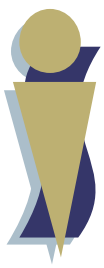


Source: Thomson Datastream

Policy responses & consequences ...



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“It’s a tough new world” – Policy responses

The bail-outs ...

**\$8 to \$9 trillion pledged
Dec 2007 to Dec 2008**



- Focus on infrastructure etc
- Rolls out over a no. of years

**\$2.7 trillion already
spent**

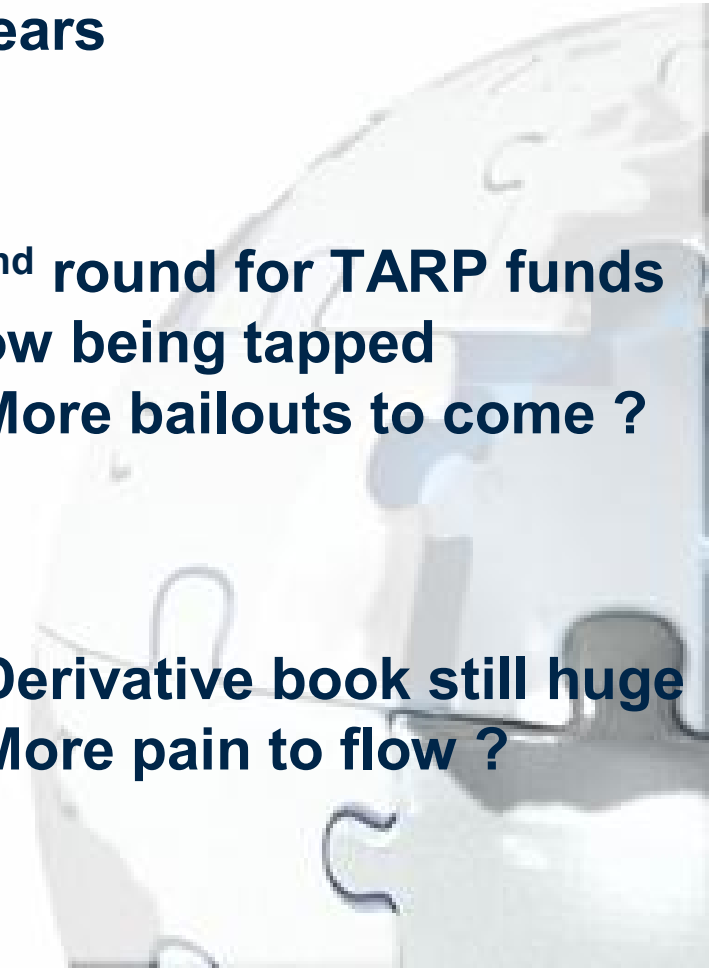


- 2nd round for TARP funds now being tapped
- More bailouts to come ?

**\$700 trillion in notional
derivatives**



- Derivative book still huge
- More pain to flow ?





“It’s a tough new world” – Policy responses

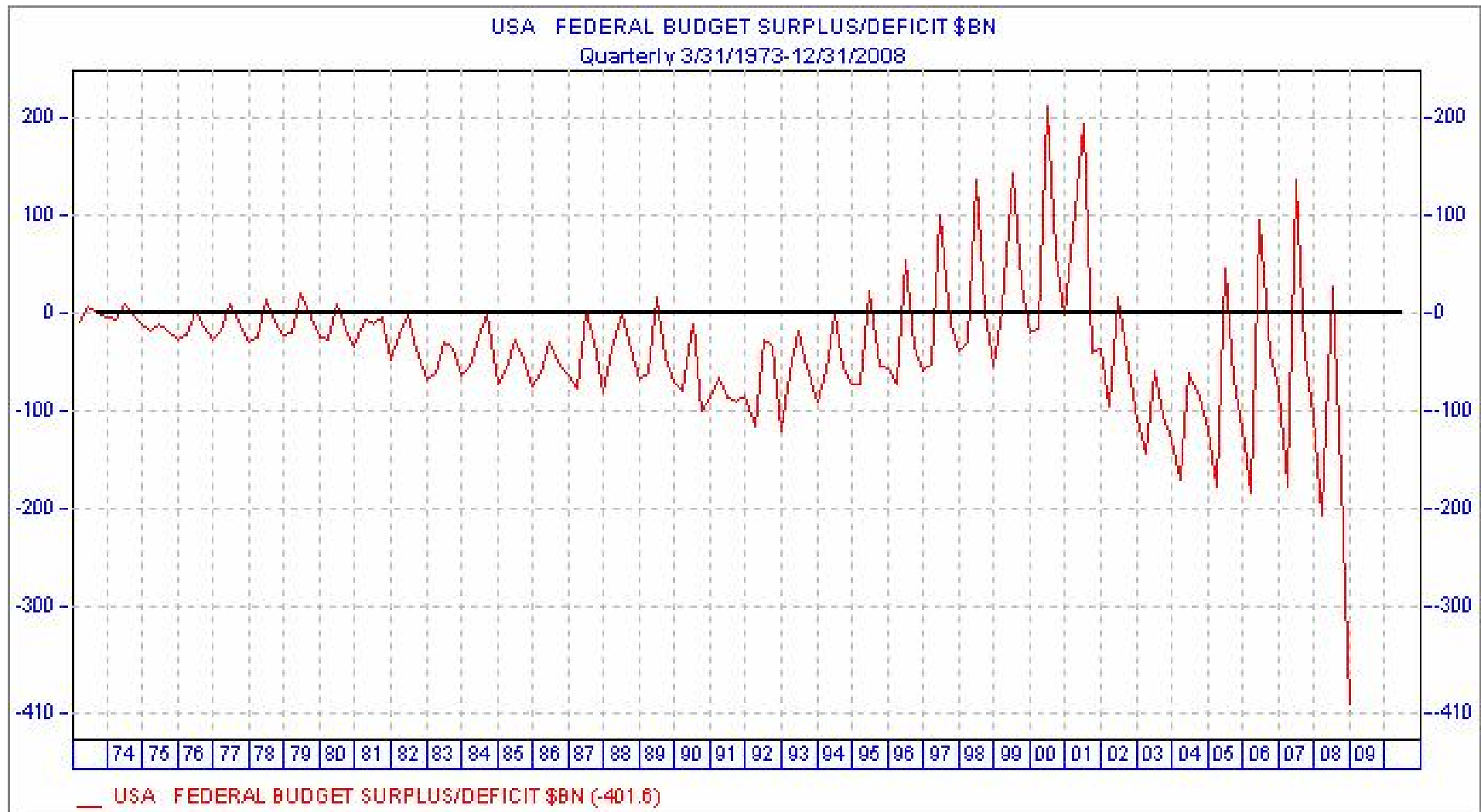
Rate cuts – “Pushing on a string ?” ...

Official Rates	UK	US	Japan	Eurozone
Recent high	5.75	5.25	0.75	4.25
Current	0.50	0.25	0.30	1.50
Official Rates	Australia	Canada	China	South Africa
Recent high	7.25	4.75	3.625	12.00
Current	3.25	1.00	1.25	10.50



“It’s a tough new world” – Policy responses

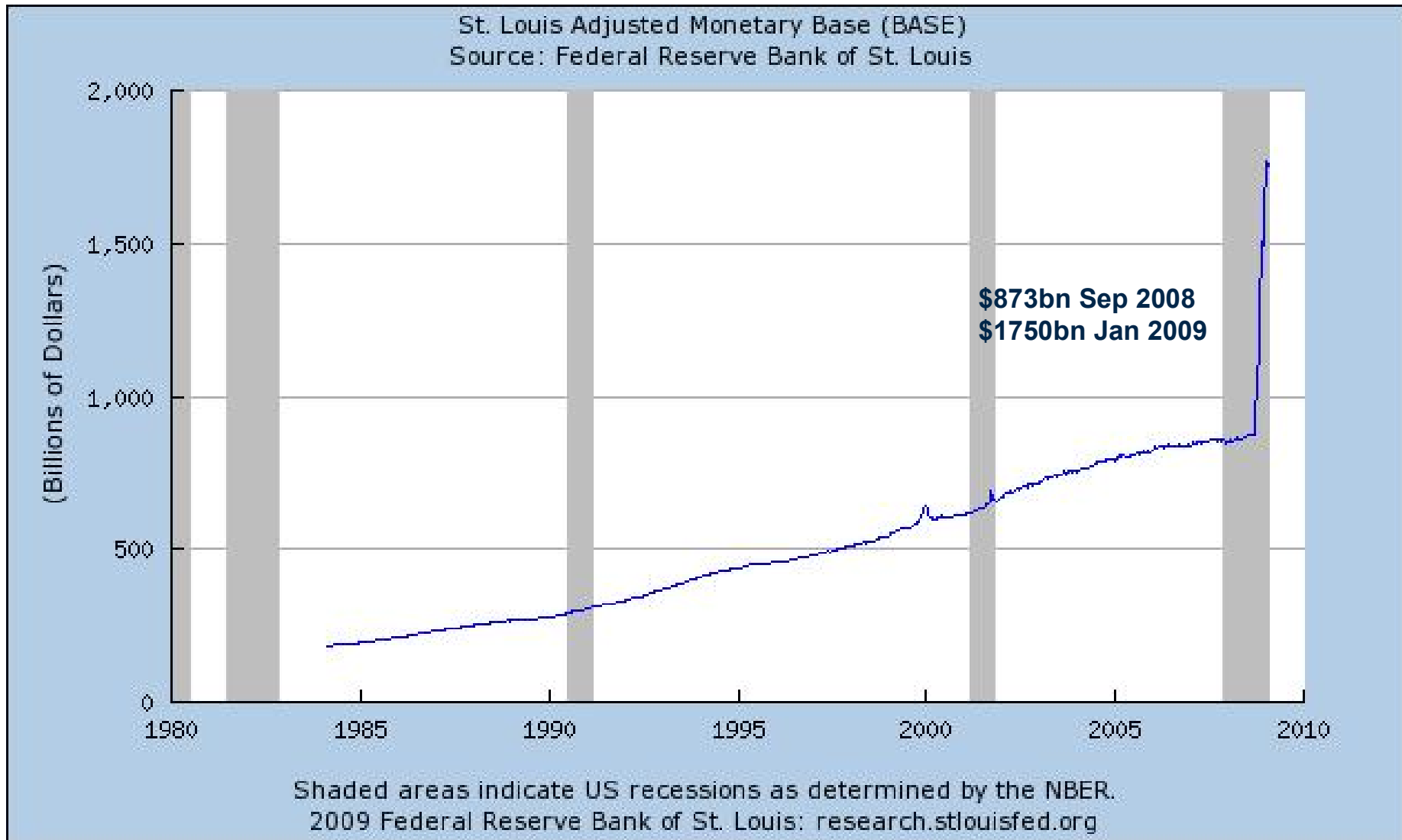
US budget deficit widening ...





“It’s a tough new world” – Policy responses

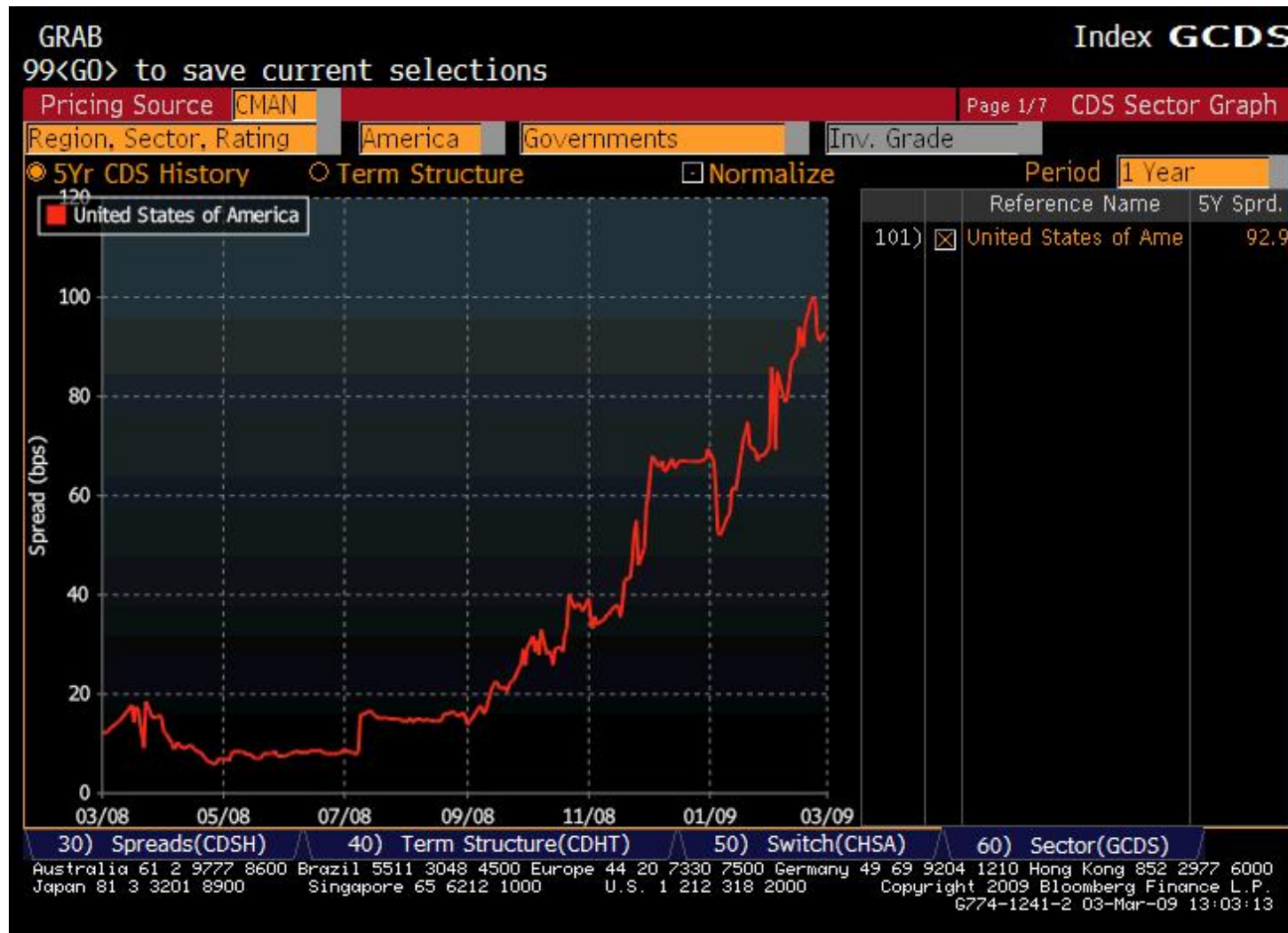
US monetary base exploding ...

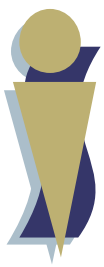




“It’s a tough new world”

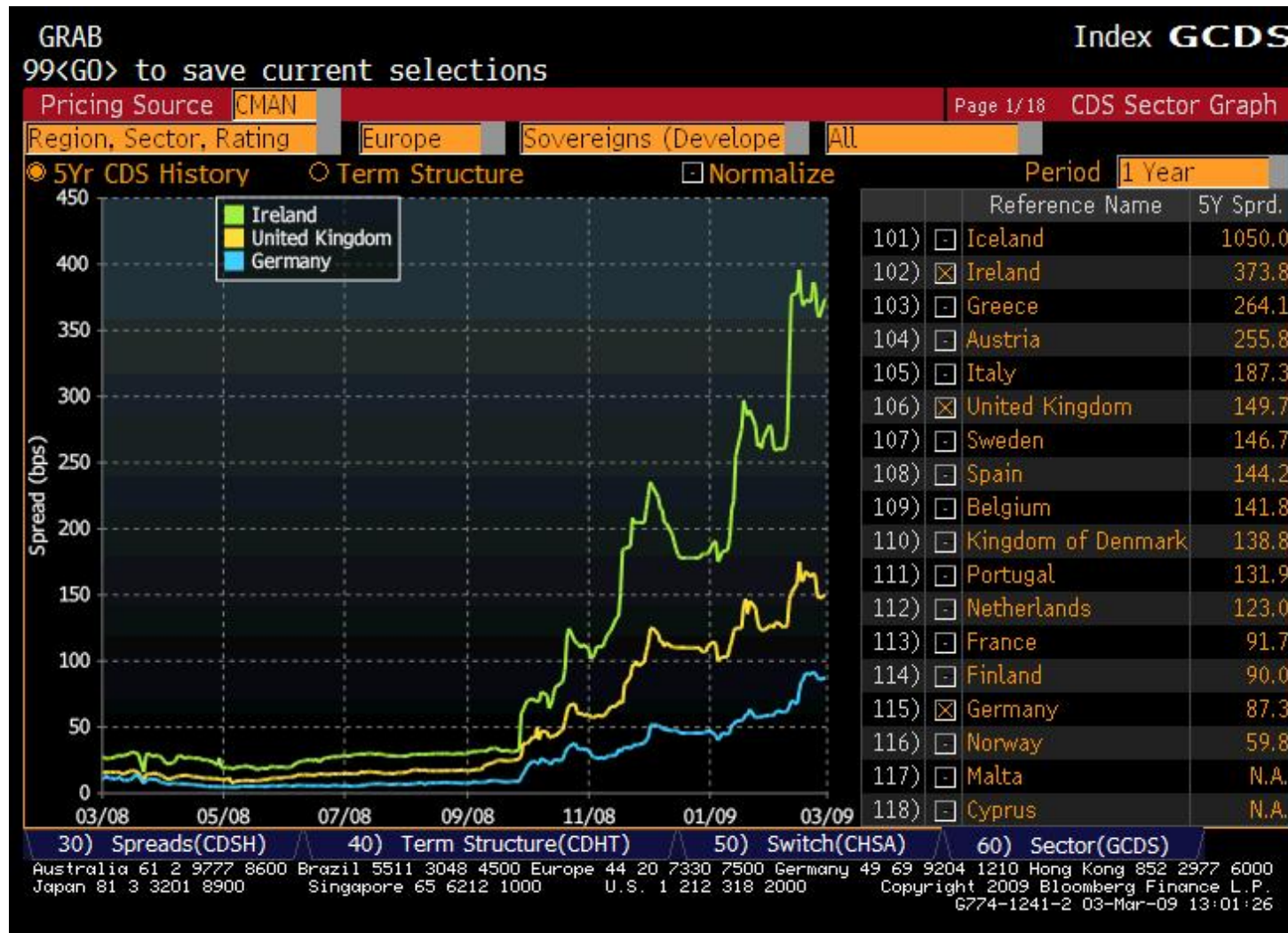
Sovereign credit default swaps (CDS) – US ...





“It’s a tough new world”

Sovereign credit default swaps (CDS) – Europe ...



The “Tale of 2 regions ” ...

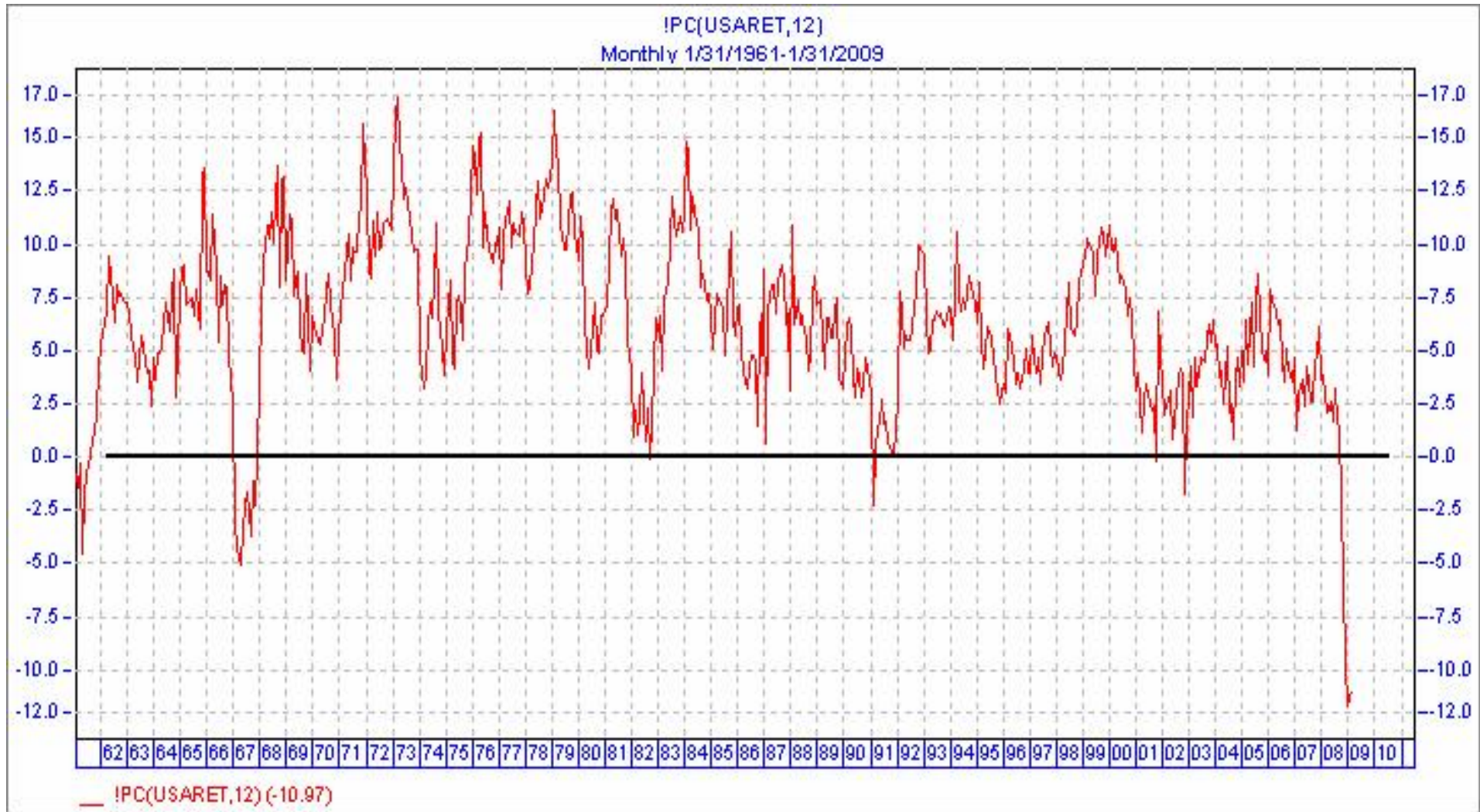


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“The tale of 2 regions”

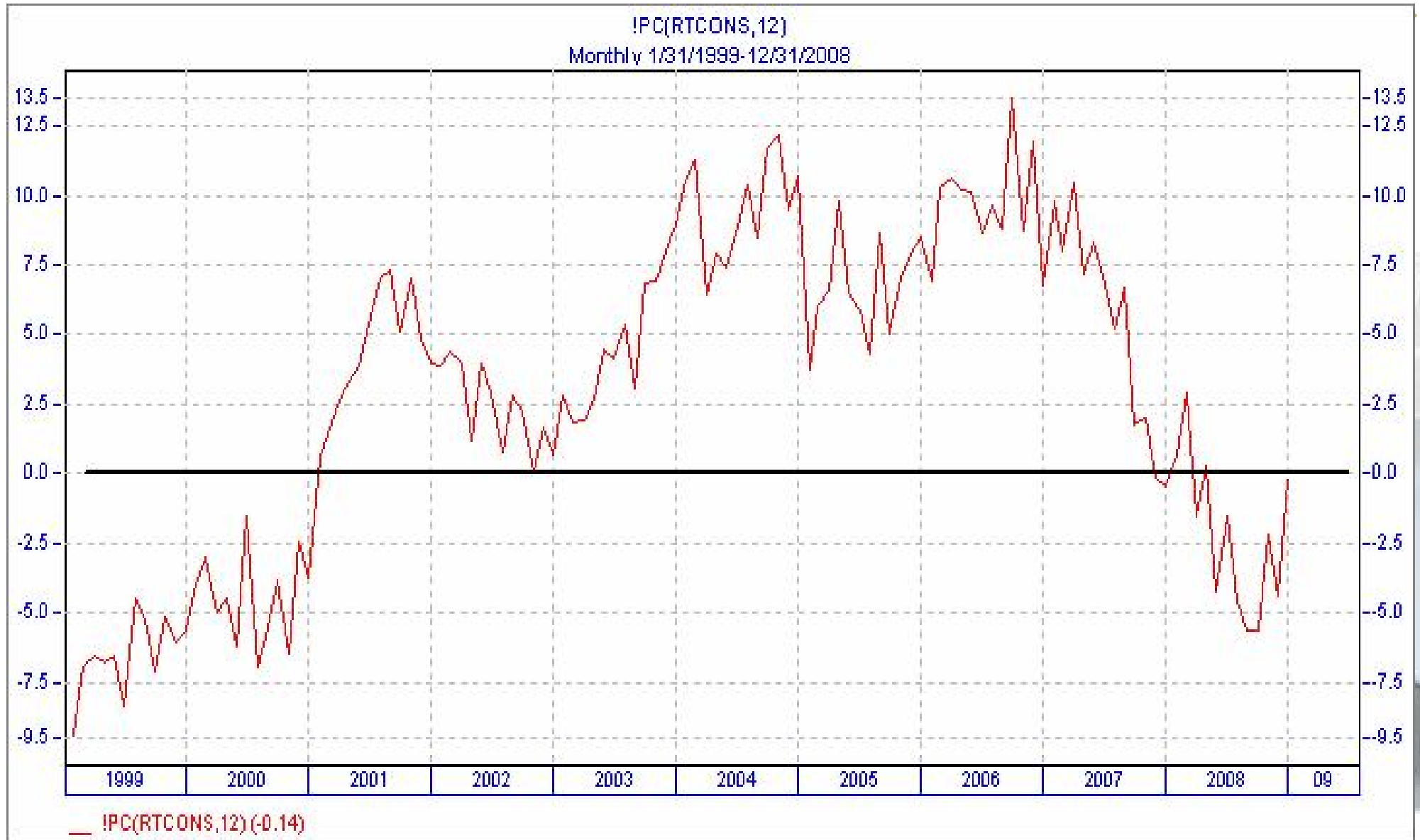
US retail sales: “Falling of a cliff” ...





“The tale of 2 regions”

SA retail sales: “Can u see the difference ... ?”





“The tale of 2 regions”

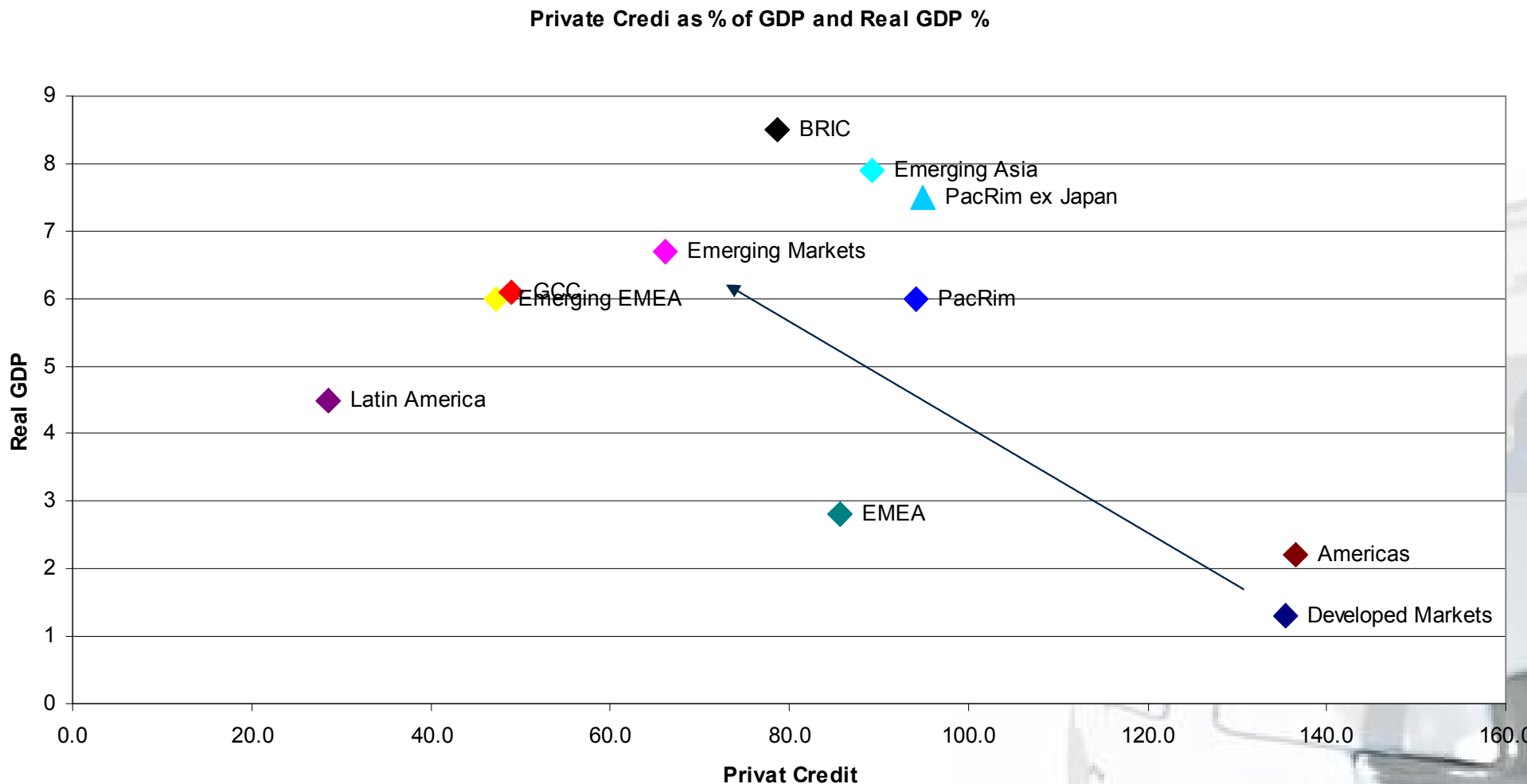
The interest rate divide – “Can u see the difference ... ?”

Country	1-mth rate		Country	1-mth rate
USA	0.34%		Brazil	12.66%
UK	1.13%		Russia	13.00%
Euro area	1.19%		India	4.65%
Japan	0.38%		China	1.26%
Switzerland	0.18%		South Africa	10.25%



“The tale of 2 regions”

Private Credit vs growth - Flows towards Emerging Mkts ...





“The tale of 2 regions”

Key differences – “West vs East/Emerging Mkts” ...

- Cyclical vs Structural
- Impact of bubbles & time to recovery
- The ‘solutions’
 - Debt “balloon” in the West
 - The wrong “medicine ?”

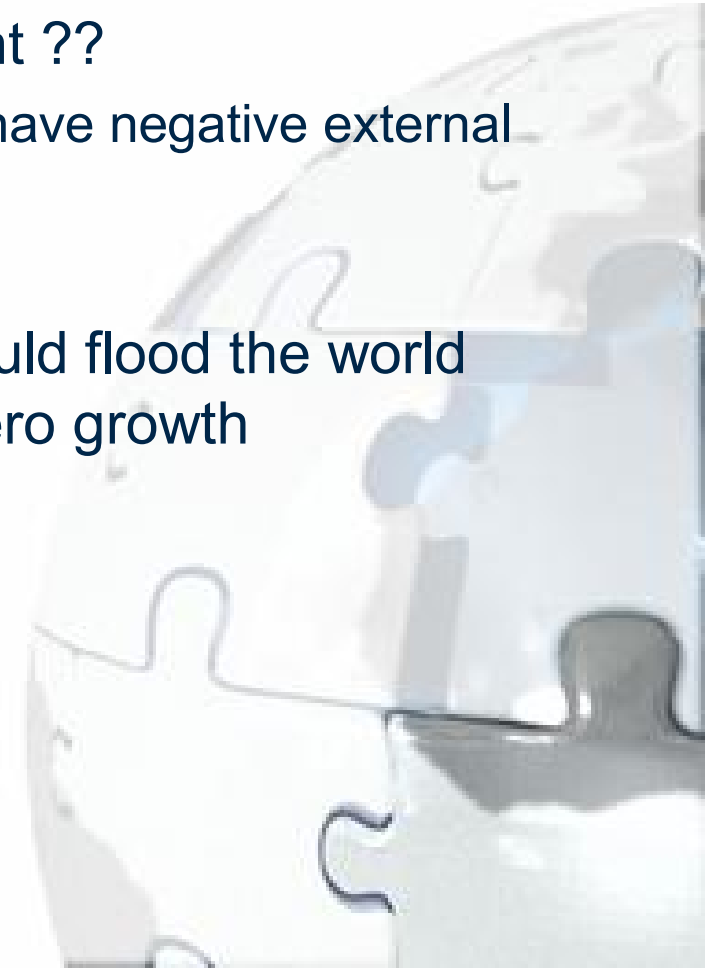




“The tale of 2 regions”

The new “carry trade” – Flows towards the EMs ...

- The Japanese experience
 - Zero growth + zero yield + excess liquidity -> Massive carry trade
- Will the US and UK experience be any different ??
 - Possible worse consequences, as US and UK have negative external balances
- US and UK measures, reinforced by Japan could flood the world with liquidity trying to escape zero yield and zero growth
- Consequences :
 - Weakness in both the dollar and pound
 - Developed world and EM decoupling possible



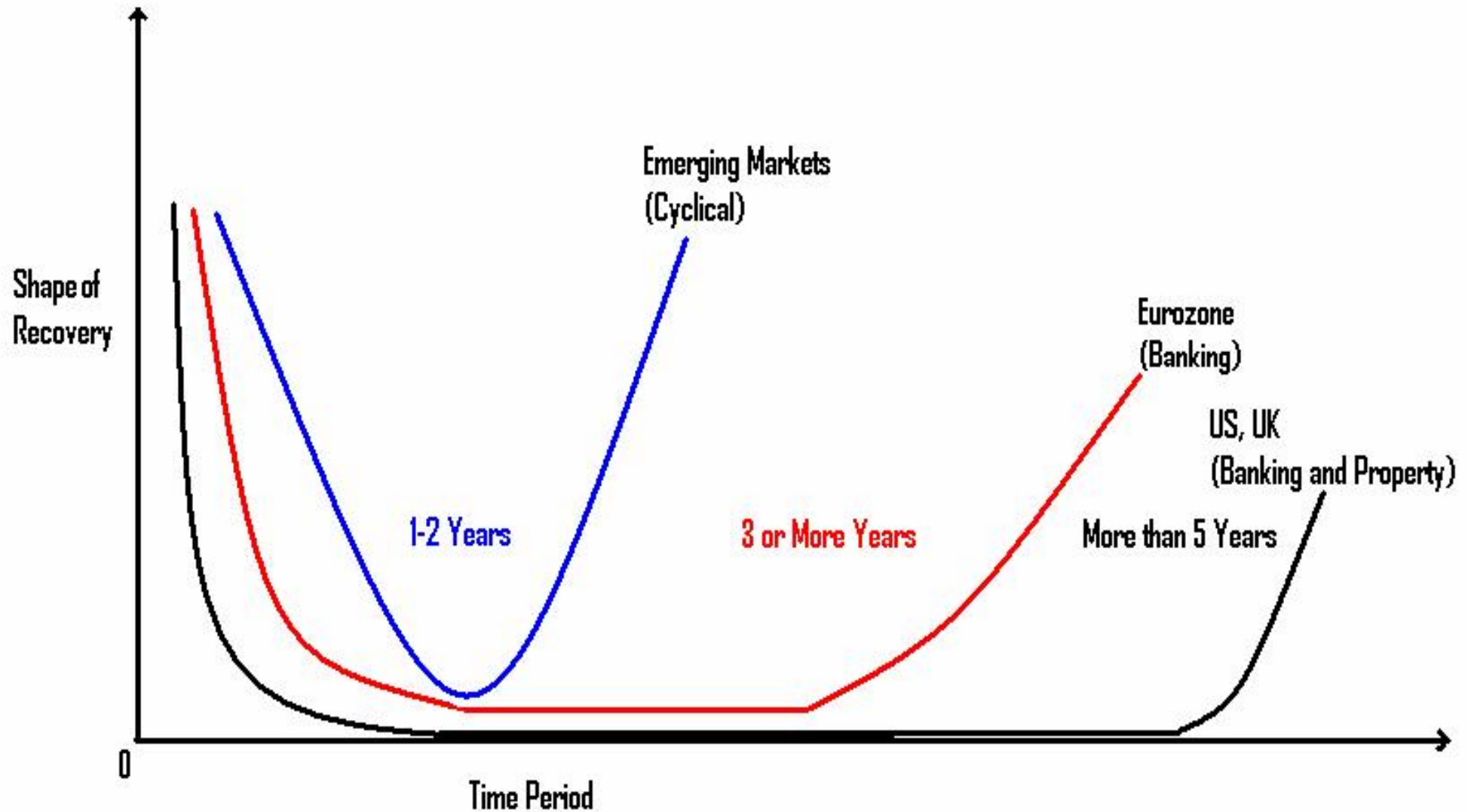
“The tale of 2 regions” – Implications ...





“The tale of 2 regions”

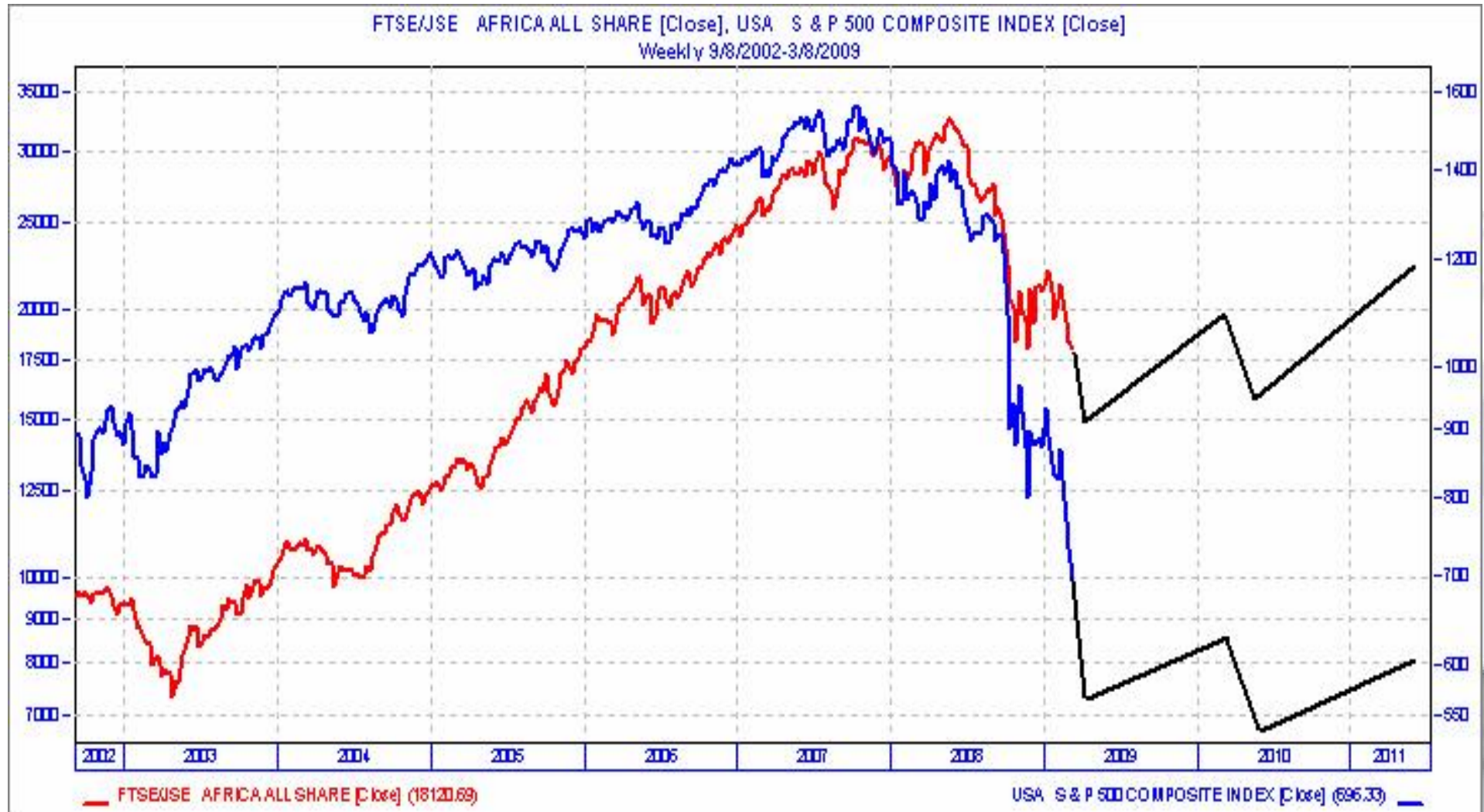
Recovery time-lines – Regional ...





“The tale of 2 regions”

Recovery time-lines – EM vs Developed – expect to diverge ...





“The tale of 2 regions”

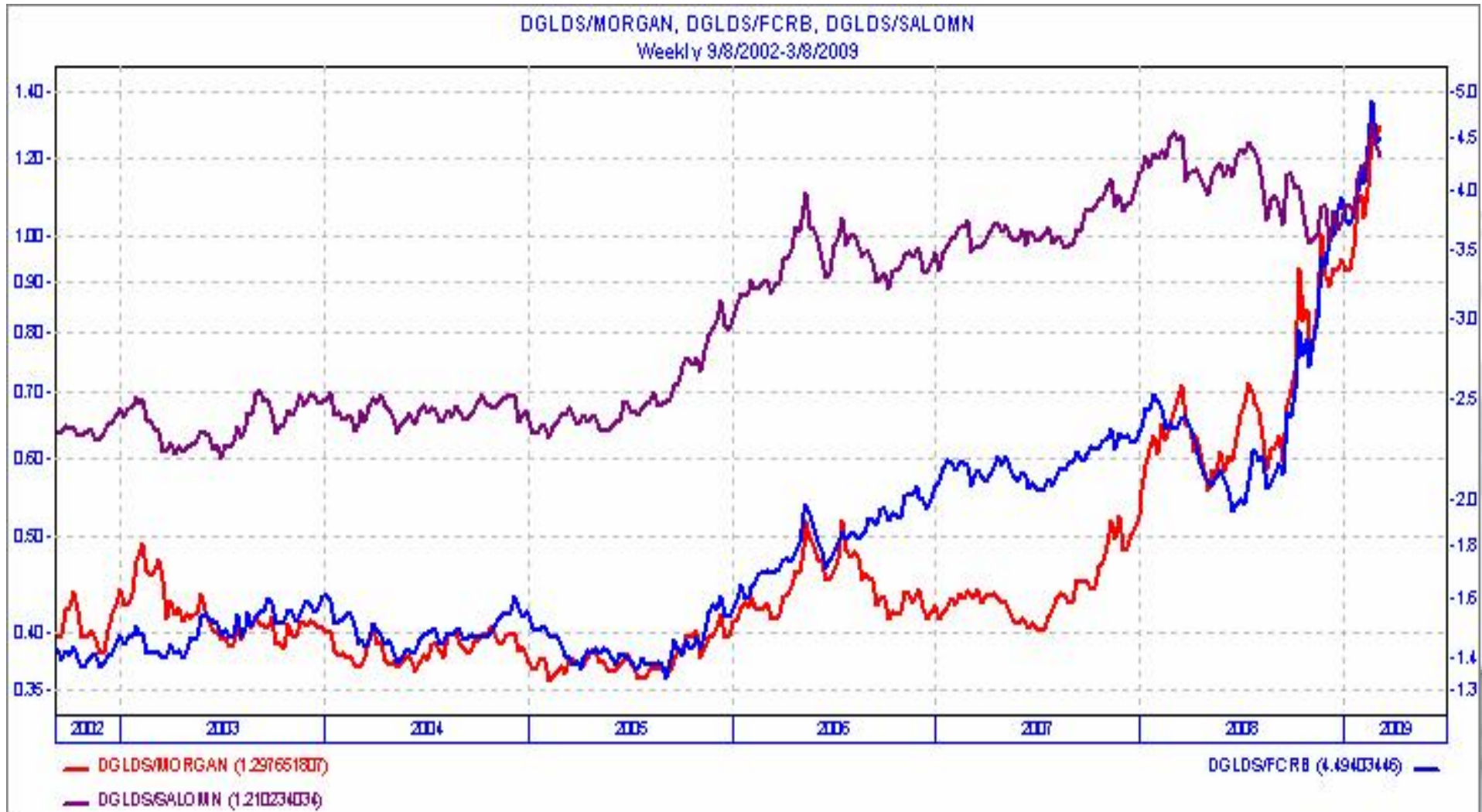
Emerging markets vs MSCI – out-performing again ...





“The tale of 2 regions

Gold likely to continue to out-perform – Good for SA ...





“The tale of 2 regions”

Recovery time-lines – The rand ...



How to respond ...



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“Its a tough new world”

Opportunities – “Refugee vs Entrepreneur”

- Do you see cup as “half full or half empty” ?
- There are always opportunities – BUT within the correct perspective ie.
 - It is tough out there (& likely to worsen)
 - This is a multi –yr bear market - tho primarily in the West
 - Avoid debt, excess risk, rash responses ...
- The ones who survive **WILL** be much stronger & huge winners
 - One needs to invest for the future !





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