

SA investors negative

INVESTING: More respondents believe that the market is too expensive than those who believe it is cheap

SOUTH African investors have considerably reduced their expected return outlook for local equity markets and have again become especially negative on the outlook for the near term.

This is according to the June 2008 Sanlam Investment Management (SIM) Investor Confidence Index, a monthly measure of sentiment among investment professionals and financial planners.

"The world finds itself in a precarious position," explains Frederick White, head of research and process at SIM, the asset manager within the Sanlam Group. "There are still big downside risks to growth in the aftermath of the credit crisis due to tightening credit standards and extremely low consumer confidence, combined with — and as a consequence of — rising unemployment and falling asset prices. These growth concerns are putting pressure on central banks to lower interest rates.

"On the other hand, unusual movements in important external factors, such as oil and food, are not only putting upward pressure on inflation, but are also raising concerns that such pressure is now starting to become more broad-based. These inflation concerns are placing pressure on central banks to increase interest rates," said White. "The fact that the external drivers have proved to be nearly impossible to forecast and are influenced by factors that cannot be forecasted, such as the weather and disease, all add to the uncertainty surrounding interest rates and growth."

This uncertainty is manifesting itself in the volatility we are seeing in financial markets and in the swings in confidence among financial market participants. "It is no surprise to see that the volatility that has characterised investor confidence over the past year continued to be reflected in the June measurement," said White.

"Despite the fact that the market was about five percent lower in June compared with the previous month, the number of respondents who felt that the SA equity market is offering value declined."

According to the results of the survey, there has also been a marked deterioration in investors' return expectations, especially when it comes to short-term returns — the average of which has actually turned negative again. In this tussle between inflation and growth, the dominant theme over the last month has been rising interest rate expectations.

"On the local front, the SA Reserve Bank expressed concern over broadening inflation pressure and a determination to act decisively to fight inflation. The result was that investors started pricing in higher interest rates and started reducing their outlook for local growth," said White.

"On the international front the broadening in inflation pressures also came under the spotlight as confirmed by central bank speeches. This resulted in financial market participants becoming more concerned about potential increases to interest rates and the consequent downside risk to growth. In both cases the accompanying risks are for lower earnings growth and lower valuation levels.

"Over one and three months, the average expected returns have both dropped to negative 1,2%. The outlook for six months is just over one percent, while the 12-month number has fallen to less than 4,7%. Fewer than one in three respondents now expects positive returns over the short term," said White. "The percentage of respondents who believe the market is too expensive has increased to 36%, close to the highest it's been since the survey started and much bigger than the percentage who believe the market is too cheap — which has dropped to 16%," concludes White. — Supplied.





Pictured at the Businesswomen's Association (BWA) Nedbank Regional Business Achiever Awards are (from left – back row) Sharon Singh (winner entrepreneur category), Meryl Pillay (winner corporate category), Leanne Pechey (winner entrepreneur category), Lynda Bryant (winner professional category), Sagree Pillay (Nedbank), (from left – front row) Yvette Montalbano (CEO BWA), Margaret Kruger (winner start-up category), Brigitte Ryder (Nedbank) and Vani Moodley (BWA chairwoman), with (inset) Cookie Edwards (winner social entrepreneur category).

