

Date: Tuesday, 3 March 2009

Embargo: None. For immediate release

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Times are tough but there are signs of a recovery in markets, economist tells USB

In these tough economic times there are positive signs of a recovery, but people are so affected by negative sentiment and a prevailing lack of trust that they tend to ignore these signs, said an optimistic Dawie Klopper, investment economist at PSG Konsult, to an audience at the University of Stellenbosch Business School (USB) on Friday (27 February 2009).

He was speaking to managers, MBA students and alumni at USB's regular Leader's Angle high-level talk series, on understanding the investment environment in troubled times.

According to Klopper, the current turmoil in the global economy is mainly due to a lack of trust. He says the downturn should not be compared to the great depression in the 1930s, but suggests that current conditions are similar to those market conditions experienced from 1973 to 1976 in America.

Characteristics of the current situation are a residential property bubble, an oil price shock, large American banks going under, huge declines in stock exchanges with well coordinated interest rate cuts by central banks the world over, and huge bailout plans by governments.

Klopper said what happened in 1973 was a substantial drop in all market indexes caused by conditions similar to those in the current downturn. "At that time there was a commercial property bubble, an oil price shock, 300 banks in America went under, and the Dow Jones stock exchange declined by 40%. Interest rate cuts followed, while there was huge government spending to revive the economy."

However, Klopper said good news arrived in the mid 70s, with the recovery of markets from early 1976. "It happened back then as a result of support packages and lower interest rates." He predicts the same will happen in the current market conditions.

"The economy will recover but there will be some supply-side constraints. This will be due to businesses across the value chain cutting back on inventories and expansion because of dampened global spending. This will lead to the next problem, namely a big rise in inflation, and as a result of this to rising interest rates due to short supply and greater demand," he explained.

However, Klopper was positive that inflation will be low over a period of time, while he says the government bond market indicates inflation to go below 3,2%, with a lower petrol price also leading to lower inflation.

Klopper said he believes the South African market is "cheap and offers great buying opportunities" for shares on the JSE. "The Equity market offers several opportunities with returns of more than 15% while some shares even offer returns of 20% to 40%."

Some of the positive points on the market recovery he mentioned are the increased sales of copper – as an early indicator of rising demand due to its use as a commodity in producing many other goods. Government bonds are normalising, from a base where they previously had negative growth. Interest rates in South Africa are declining and equity markets are cheap.

His comments on the investment environment are that in the money market – where he said many people preferred to place their money during trouble times – rates will decline further and a reinvestment risk exists. On the capital market rates have declined sharply and are discounting an inflation rate of 3,2%, which is low. He warned people to be careful and watch out for inflation to surprise on the downside. “The listed property market has recovered well, but the risk exists that a correction in the capital market may affect this asset class negatively. Make use of price weakness to buy,” Klopper advised.

He said what is needed is for people to “go back to the basics. Do not borrow money to invest in shares.” He advises this because certain aspects of the negative conditions still present in the markets. “Consumer spending is still very negative while inflation and deflation are still a concern,” he cautioned.

The USB’s Leader’s Angle high-level talks on all aspects of leadership, presented in association with *Finweek* and PSG Konsult, are an outflow of its strong focus on leadership development in its MBA, its executive education programmes, and its research on leadership.

The USB is for the first time taking its Leader’s Angle talk to Sandton, Johannesburg, on 13 March. Ronald King, director: financial planning and investments, PSG Konsult, will talk about *2020 and beyond: To boldly go where no business has gone before*.

To attend the USB’s Leader’s Angle free monthly talks in Cape Town or Johannesburg, contact Annemarie Olivier on usbcom@usb.ac.za. Visit www.usb.ac.za.

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Photo caption:

At the USB Leader’s Angle talk: speaker Dawie Kloppers of PSG Konsult, Lwandisa Mfuyo, second year USB MBA student, and Willemien Law, USB-ED’s executive: open enrolment programmes and Africa.

Released by: Marketing and Communication Division
University of Stellenbosch Business School

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