

# Global equities present opportunities

Investors around the world have taken fright after a brutal year in 2008 – the second worst year in recent market history.

“In the January we argued that this was not the time to run from equities; that in fact global equities presented the buying opportunity of a lifetime,” says Karl Leinberger, chief investment officer at Coronation Fund Managers.

Although equities sold off further in January and February, they have since rallied aggressively. Off the February bottom, the MSCI World Index is up 25% to end June, with emerging markets up 52% over the

same period.

Leinberger says they've been asked by many clients how markets can rally as strongly as they have when the globe is in recession.

“We think it's because markets always turn before the underlying economy, usually when everyone least expects it. In addition, the ‘fear trade’ became so widespread that almost everyone was out of the market,” he says.

US money market mutual funds (yielding close to zero) recently became larger than equity mutual funds for the first time in history.

“When so much cash is

sitting on the sidelines and everyone is positioned for further weakness, markets can quite literally climb a ‘wall of worry’.”

Leinberger believes it is very dangerous for investors to sit with too much exposure to cash. Any analysis of any major market in the world over any meaningful period will show that equities are the only way to protect the real value of your capital, he says.

“Over the very long term (1900–2008) the real returns of equities in the world's major markets have dwarfed other asset classes, while in South Africa, over

slightly less daunting – but still meaningful – periods (1960–2008) equities have also strongly outperformed all other asset classes.”

While the road ahead may well be rocky, Coronation remains convinced that an excessive allocation to cash at this point in the cycle is a mistake and according to Leinberger it is critical that investors don't lose their faith in equities in these volatile times.

Leinberger says: “The good news is that it is not too late. Notwithstanding the good performance of equities so far this year, equities are still our favoured asset class.”

## Leinberger's reasons are:

- Unprecedented stimulus (fiscal and monetary) has significantly reduced the risk of financial Armageddon.

- Companies have, in general, responded to the downturn quickly by cutting costs and bolstering their balance sheets (where necessary).

- Valuations of equities range from compelling (offshore

equities) to attractive (local market).

- The last 12 months have shown how difficult it is to time markets and how easy it is to be left behind when markets do recover.

- Unprecedented monetary and fiscal stimulus could well result in higher inflation in the years ahead. While inflation is not good for any asset class, equities will always be the best way for investors to preserve the real value of their capital.

