

Domestic Economics			
	Interest Rates	Inflation	Currency
The past quarter	The SARB left interest rates unchanged at their December MPC meeting. The repo rate remains at its historic low of 7%.	CPI inflation has finally provided a couple of positive surprises and has been inside the 3%-6% inflation target range for two consecutive months. The downward move has been supported by a high base and especially easing food price inflation, but most categories are moving down now.	Despite a brief spike in the rand around renewed global risk aversion near end-October, the rand continued a relatively strong phase during Q4. It ended December at just under R/\$ 7.40, compared to an end-September level of R/\$ 7.76.
Looking forward	While rates are most likely to stay flat from here as increasing evidence of GDP growth improvement comes through, there remains a risk of a further cut if CPI surprises on the downside.	CPI may blip outside the target range for a couple of months but thereafter is expected to move sustainably within target range for the rest of 2010. We see an average of 5% for the year, but also think there is a risk of downside surprise if the full effect of the stronger rand comes through into downward price pressure	The currency will most likely continue to trade in line with global risk sentiment in the shorter term and may remain relatively strong for a while. Over the medium to longer term we remain concerned that the current account deficit (which should widen again as SA growth improves) and inflation differentials will see a renewed weakening of the currency.

Domestic Equities			
	Financials	Industrials	Resources
The past quarter	Financials returned 6.5% for the quarter.	Industrials returned 8.5% for the quarter.	Resources led the market with a 16.7% return.
Looking forward	We believe that local banks are attractively priced. Earnings bases are low and earnings should increase substantially over the next 2-3 years as the abnormally high bad debt provisions in the base are unwound.	We remain overweight industrials, particularly global stocks that happen to be listed in South Africa e.g. British American Tobacco, MTN, Naspers, SABMiller and Richemont. The South African market has strongly outperformed global markets over the past five years and we are consequently finding significantly more value offshore than in our market.	We remain underweight resources, with the view that the upside to long-term valuations, based on mid-cycle earnings, is not attractive enough to justify higher exposures. We have virtually no exposure to gold and platinum counters.

Domestic Fixed Income & Property			
	Money Market	Bonds	Property
The past quarter	Money market rates weakened somewhat early in the quarter and then largely moved sideways, as the SARB left rates unchanged over Q4. The 3-month Jibar ended the year at 7.2% from just over 7% at end-September, while 12-month Jibar rose a more subdued 2bp over the quarter to end at 8.2%.	Bonds had a subdued quarter, with the ALBI gaining 1.1% between end-September and end-December. The shorter area of the yield curve outperformed. While inflation was positive for bonds, rising global bond yields and increasing domestic bond supply limited the potential for gains.	Listed property capitalised on the strong momentum of the previous quarter in delivering a total return of 4.0%. This was mainly due to a rerating relative to bond yields as, despite bond yields ending the quarter higher, listed property yields drifted lower. Results released during the quarter generally remained fairly intact with distribution growth in line with lease escalation rates. This defied the fear of a continued increase in vacancies and pressure on rentals as a result of a weak economic environment.
Looking forward	The money market is factoring in no probability of a further rate cut. The FRA market is starting to price in a hike by Q3 2010, with a 50bp hike fully priced in to have taken place by year-end. Given our current inflation outlook, we think this might be too pessimistic.	The near-term outlook for bonds remains murky. A positive argument can be made from the likely trends in CPI and the fact that the market may have underestimated the effect that the stronger rand will have in pulling inflation rates down. However, concerns about supply pressure may well weigh the market down for a while.	Listed property is trading within a fair value band taking into account current bond yields and distribution growth prospects. However, the next 6 to 12 months are pivotal for risks in the occupier market from a landlord's point of view. Increased occupancy costs driven by higher electricity tariffs and local government costs may stifle the willingness of tenants to accept high reversion rates and in the event of a weaker trading environment, this may be the final catalyst for tenant failures.

Global Markets	
The past quarter	An exciting fourth quarter brought a fitting end to an exciting calendar year. Equity markets around the world continued to rally with the global risk appetite rising further as evidence of a global economic recovery started surfacing. Global equity markets returned just over 4% over the quarter and the emerging markets universe was very strong with an 8,6% return (all international returns in US dollars). Equity exposure in our international funds increased slightly, with the new positions all focusing on defensive names with reasonable business outlooks.
Looking forward	We still believe that global equities are attractive and continue to evaluate opportunities to deploy our cash holdings. When one considers the very strong rand, we believe that investors currently have an excellent opportunity to diversify their portfolios. We have taken full advantage of this where mandates allow. We believe bonds are expensive and a buyer of bonds at current yields assumes a high probability of some loss of capital. Our negative view on government bonds is in turn carried through to corporate bonds, which many investors appear to be forgetting will also inevitably be negatively impacted by a de-rating of government bonds. Likewise, we hold a cautious view on property stocks.