

MARKET OVERVIEW - FEBRUARY 2009

SOUTH AFRICA

ECONOMY AND MARKETS

INTEREST RATES

Global interest rates are now at historical lows. For most central banks there is now little opportunity for further rate cuts. South Africa's first meeting for 2009 in February saw a 1% drop to the repo rate. Mboweni spoke about wanting 2%. Depending on the severity of economic data out this week, there is a good possibility that the Reserve Bank opts for a cut before the next meeting in mid April.

INFLATION

Consumer price inflation dropped to 10,3% in December. The figure for January 2009 - now to be known as the headline inflation rate - is expected to be around 7,3% year on year. The windfall comes from a higher base effect, composition of a new basket and large price decline in fuel. Clearly this is going to be positive for further interest rate cuts. The original band of 3%-6% is getting close.

CURRENCY

Global currencies are increasingly volatile, and this makes trying to forecast the rand very difficult. Capital flows are seeking out perceived low risk because yields are almost non-existent. The high probability of interest rates declining does not help the rand's direction. If anything, with risk aversion top priority, the rand is likely to depreciate relative to other currencies and the USD especially.

	J203 ALSI	J210 Resource 20	J211 Industrial 25	J212 Financial 15	J253 Property	RSA Bonds ALBI
January 2009	-4.3%	-2.6%	-4.8%	-8.3%	-1.1%	6.9%
12 Month return (2008)	-23.2%	-32.5%	-9.1%	-22.1%	6.3%	17.0%
Current PE (Price/Earnings)	9.3	9.2	12.7	6.4		
Long Term PE (Price/Earnings)	14.5	14.2	15.1	12.3		
Current DY (Dividend/Price)	4.5%	4.2%	3.3%	6.5%		
Long Term DY (Dividend/Price)	2.7%	3.3%	2.0%	3.1%		

EQUITY

January and February have continued where 2008 left off. Because of the maxim "as January goes, so goes the rest of the year" for many investors this negative start is worrisome for the 2009 outcome.

Looking back in 3 - 5 years from now, there is a fair to high probability that investors will see the current levels as excellent entry points. In discussions, and from data, it's clear that many long term investment managers have increased their local equity exposure in the light of the inherent value. However at the same time, hedge fund managers with an eye on capital protection are still holding their exposures at the lower end of mandates.

Our view is that local prices are following global developed markets and despite the value, prices will only move up when we see a rebound in global equity markets. Most global indices are at important junctures and we will only increase exposure when we see a turnaround globally.

The result is that the depressed prices of companies reflect value. There is a possibility that they become cheaper in 2009, but the stage is being set for longer term positive real returns from these depressed levels. The big question now is "At what prices are these attractive enough to increase exposure to this asset class."

FIXED INCOME AND PROPERTY

MONEY MARKET

As interest rates start to drop, longer term investors suffer from reinvestment risk of cash at lower and lower interest rates. Longer dated bond yields are not attractive. With inflation coming down and ongoing volatility in equity prices, cash remains attractive, but only with a short time horizon.

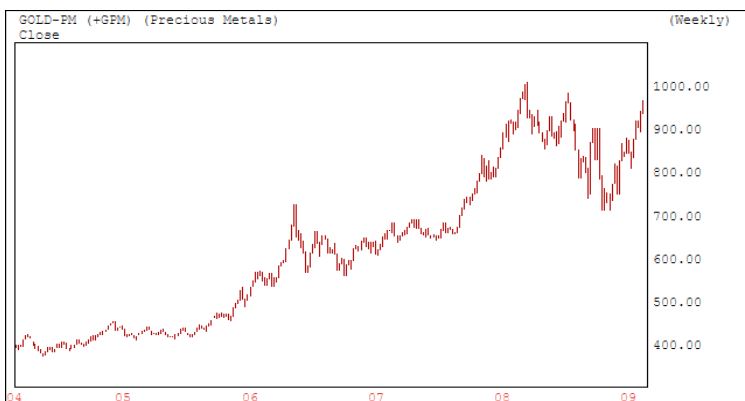
BOND MARKET

Low yields on government bonds may persist for some time. We have thought bonds are very expensive. Yields on the R157 have moved up from 7,4% to their current 8,12% - i.e. negative returns. The inflation number will come down dramatically, but still we don't believe that there is enough value in local bonds.

PROPERTY MARKET

Listed property once again outperformed the equity market in 2008, but still suffered a negative return. Yields remain fair at just less than 10%. Prices have picked up from their low points in mid 2008, but may struggle in a generally weak economy.

GOLD



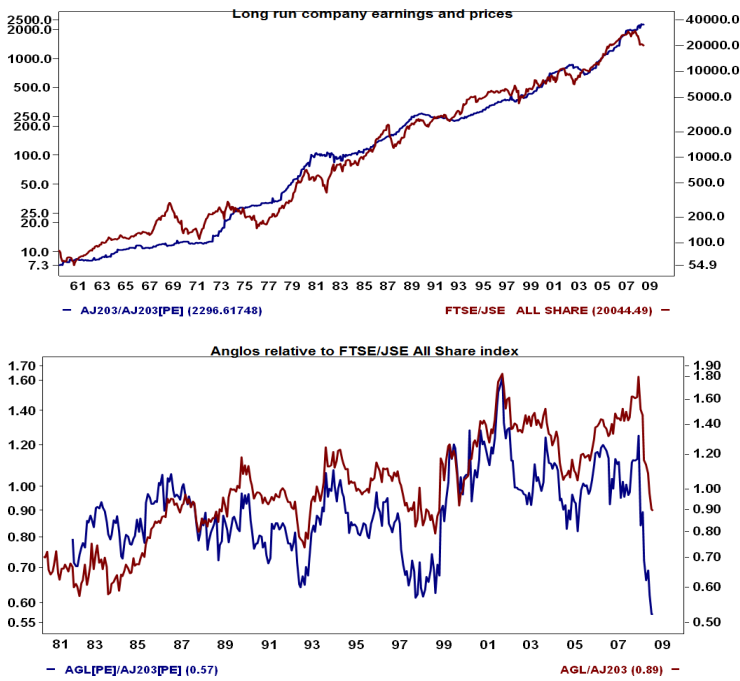
In contrast to most base commodities, the price of gold has been on a long upward trend - within this trend, it has had sharp downward movements. In many respects it appears to be acting like a currency and despite the strong USD, gold has been firm.

The investment demand aspect for gold remains firm in parts - i.e. investment demand saw a 64% increase in demand in 2008.

However almost 60% of annual demand is jewellery and this declined 11% in physical off take in 2008.

Total demand, according to the World Gold Council, was up 4% to 3659 tonnes in 2008. The price has firmed to around \$970/oz. For SA miners the price is at record rand levels at around R320 000/kg.

FTSE/JSE CUMULATIVE EARNINGS VERSUS PRICE



Last month we showed the graph of the percentage change in 12 month earnings growth. It was clear from the graph that earnings are cyclical. i.e. company earnings go through growth phases and then slowdown phases.

The attached graph reflects the cumulative earnings from listed companies. It's clear that while the long term trend for earnings is positive as a whole, there are long stretches where earnings are flat and sometimes even negative.

What is also clear is that over the long run prices of companies follow the earnings trend. At the same time we know that prices do tend to be more volatile around the steadier earnings trend.

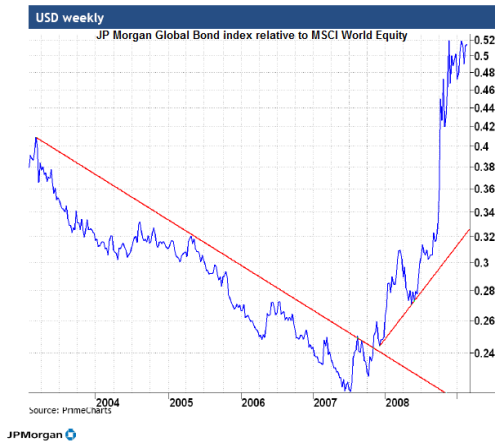
Occasionally prices get far ahead of underlying earnings growth and at times they fall far below earnings. What is not that clear from this long term chart is that prices do start to anticipate the next upturn ahead of an earnings increase.

The second graph indicates how in some instances, on a relative basis, prices have fallen. In this case the price of Anglo American relative to the JSE (red) and the PE relative to the JSE (blue) have fallen dramatically. We all know the reason - i.e. a correctly anticipated massive slowdown in earnings as commodity prices fell sharply.

What this chart indicates however is that while its a known fact that earnings have and will fall, prices have anticipated and (especially on a relative basis) many have overreacted.

This chart indicates that relative to the PE valuation of the JSE, Anglo American is looking attractive.

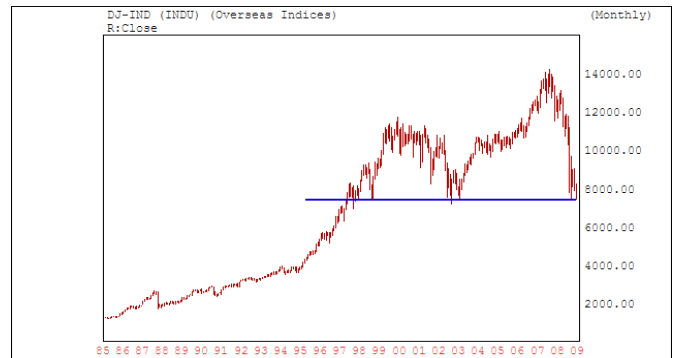
GLOBAL MARKETS



Global bonds have outperformed equities since Oct 2007.

Sovereign bonds are priced for perfection, but yields on corporate debt are trading at very high spreads - this is an indication of the outlook for defaults on company debt.

Investment grade corporate debt is attractive, while yields on lower quality higher yield bonds are still not attractive for the higher risk.

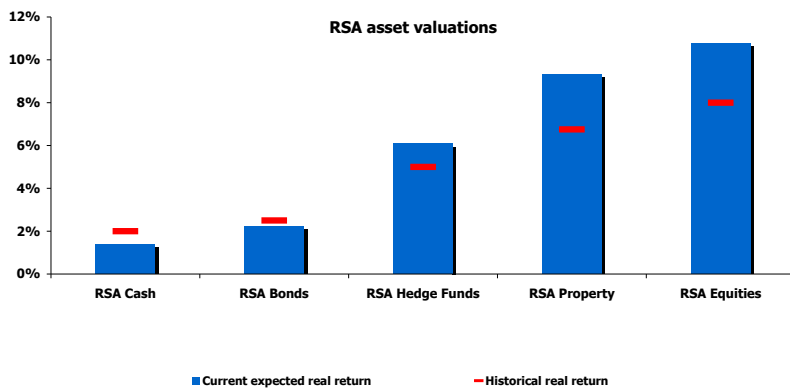


The graph above of the Dow Jones Industrial index is very similar to most developed market index charts. While not a very representative index - i.e. it comprises just 30 shares - it is a widely followed index. This last week it made a fresh 6 1/2 year low and is at important price levels.

The Dow Jones, like most indices, is not a total return index. i.e. it does not take into account cumulative dividends from underlying investments.

The index is currently close to its October 2002 price levels - with a weekly low of 7197.

LONG TERM EXPECTED REAL RETURNS



This table provides an indication of the current expected real returns from local assets relative to longer term real rates from the assets.

Despite the recent volatility in prices, the longer term valuation outlook has not changed too much. The longer real asset prices remain depressed, the better the long run returns.

- Cash is a temporary safe haven, but not likely to provide real returns over the next 2-3 years, especially after tax.

- Bonds yields have spiked up in January and February. We have been negative on local bonds for some time now. So despite the probable interest rate cuts, long bonds don't appear particularly attractive.

- Property yields steadied around 9.3%, and at these levels appear to be pricing in property risk. The valuation differential between property and bonds appears to be reasserting itself. While we don't expect much capital growth from property, we do prefer property to bonds.

- There is value in the current equity prices. Historical yields are attractive. The big question remains, have prices fully anticipated the decline in earnings and company margins. We will be watching earnings announcements in the next few months to try and gauge the extent to which they have been priced in.

HOUSEVIEW

LEGEND - RELATIVE TO BENCHMARK

High Overweight	++
Overweight	+
Neutral	=
Underweight	-
High Underweight	--
Change from previous month	BOLD

3 MONTHS 12 MONTHS

Inflation	down	flat
RSA Equities	-	+
RSA Resources	=	+
RSA Industrials	-	+
RSA Financials	-	+
RSA Bonds	-	-
RSA Cash	+	-
RSA Property	=	=
RSA Hedge funds	=	=
Offshore	+	+
OFF Equities	=	+
OFF Bonds	+	-
OFF Cash	=	=
OFF Property	=	=
OFF Hedge funds	=	=

CONTACT DETAILS

Physical: 3rd Floor, Waterfront Terraces, Tyger Waterfront, Bellville, 7530
Postal: PO Box 3107, Tyger Valley, 7536
Website: www.seedinvestments.co.za
Email: info@seedinvestments.co.za
Tel: 021 9144 966
Fax: 021 9144 912

Directors: I de Lange, VA Heys
FSP #: 2346