



INSIGHT

Investment perspectives from the Harvard House Group

DUSTING OFF THE CRYSTAL BALL

The Outlook for 2015

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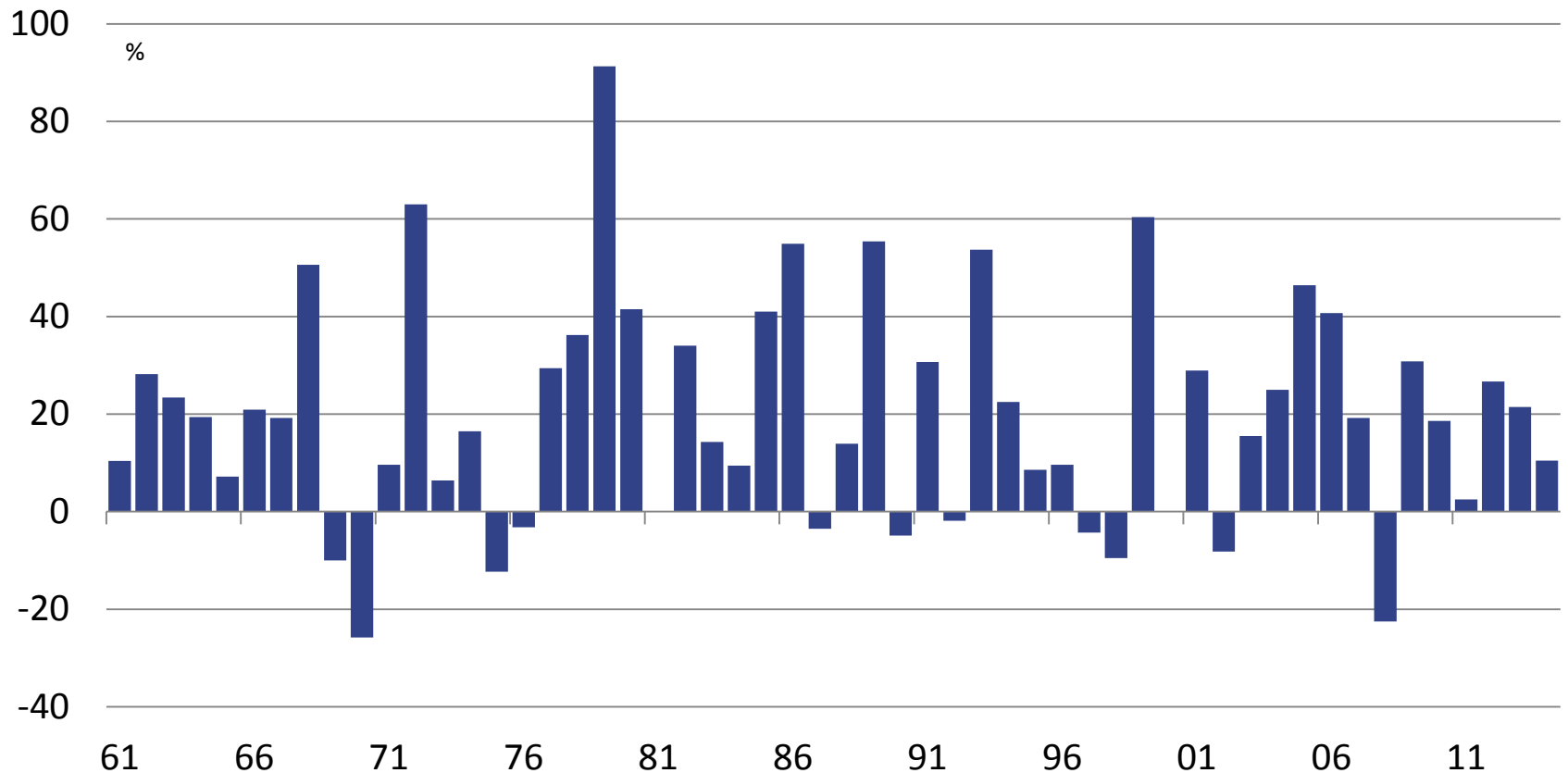
November 2014



Equities: annual returns

Markets rise more than they fall, but long winning streaks are unusual

JSE All Share Index – Annual Total Returns



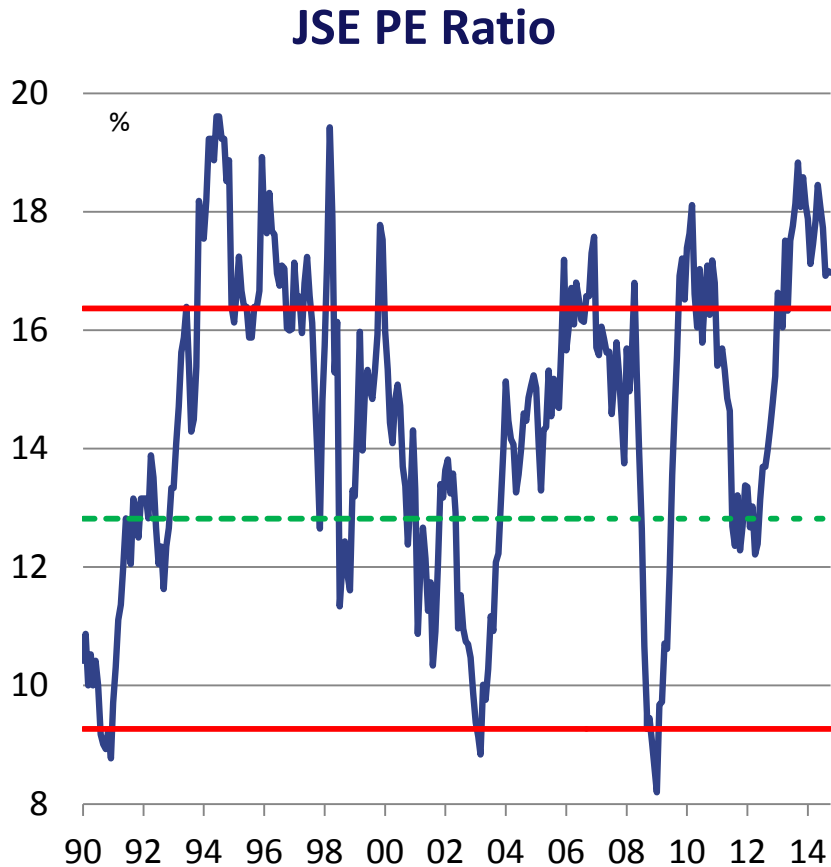
Looking back

Our expectations for local valuations

	Resources	Financials	Industrials	All Share
'14: expected eps growth	18.5%	20.0%	21.7%	20.3%
'14: year end p/e ratio	19.5x	12.2x	19.0x	16.8x
EPS growth YTD	41.2%	7.0%	14.5%	17.5%
Current P/E Ratio	13.7x	15.0x	21.1x	17.0x
Returns YTD	-9.1%	17.1%	11.2%	7.5%

Déjà vu?

We start 2015 with similar valuations to 2014



Local	Start of '14	Current
Resources	21.5	13.7
Financials	13.7	15.0
Industrials	21.7	21.1
All Share	18.6	17.0

Offshore	Start of '14	Current
FTSE 100	16.7	16.5
S&P 500	17.3	17.9
Singapore	13.7	13.4
Australia	19.9	18.9

2015: a tale of two halves

The year that global interest rates finally start to normalise

1st Half

VOLATILE

Hinges on the outlook
and timing of US / SA
Interest Rate increases



2nd Half

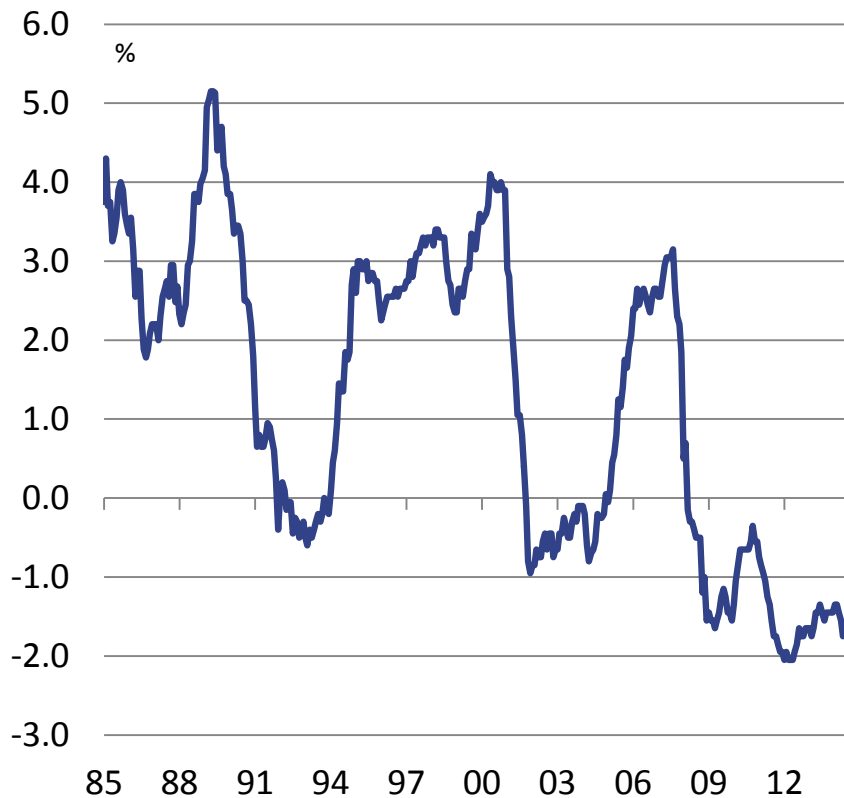
STABILITY

More certainty and
improving growth
prospects

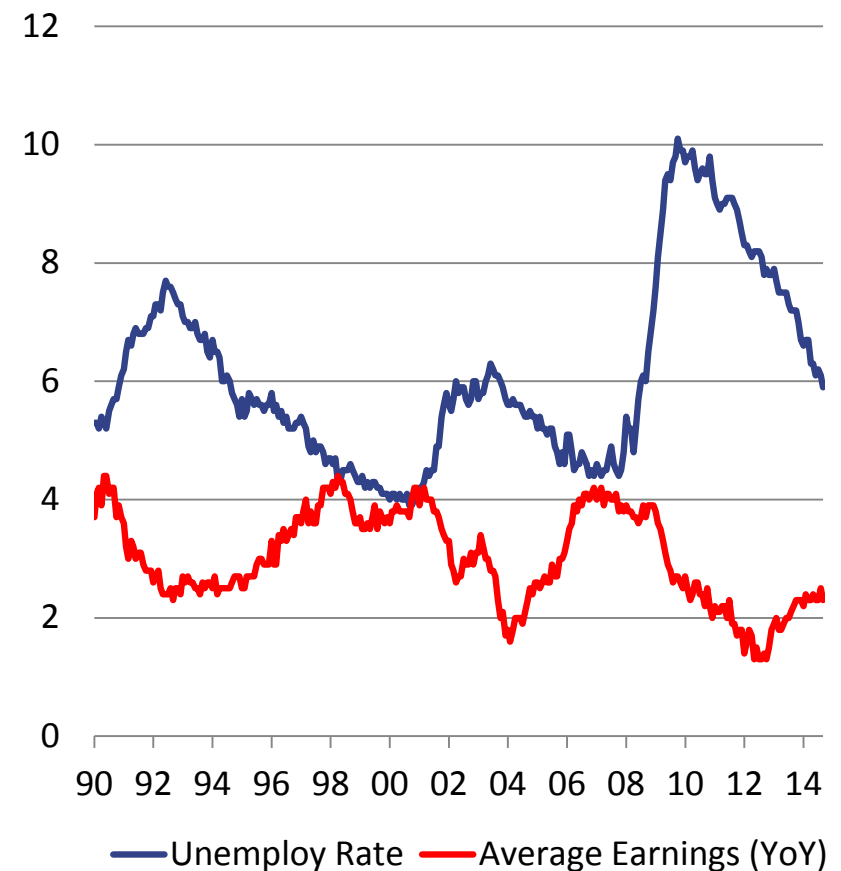
US “QE” has come to an end

The focus has now shifted firmly to the timing of rate increases

Real Fed Funds Rate



US Unemployment & Wages



Implications of changing US policy

An increasingly unbalanced global economy



“Normalising” risk appetite



Unbalanced Global Economy

- UK, Europe, Japan still pursuing QE
- Pressures on EM
- QE policy / interest rates not consistent so distortions may occur.



Currencies: a strong US Dollar

- Pressure on commodities
- Pressure on emerging Market currencies

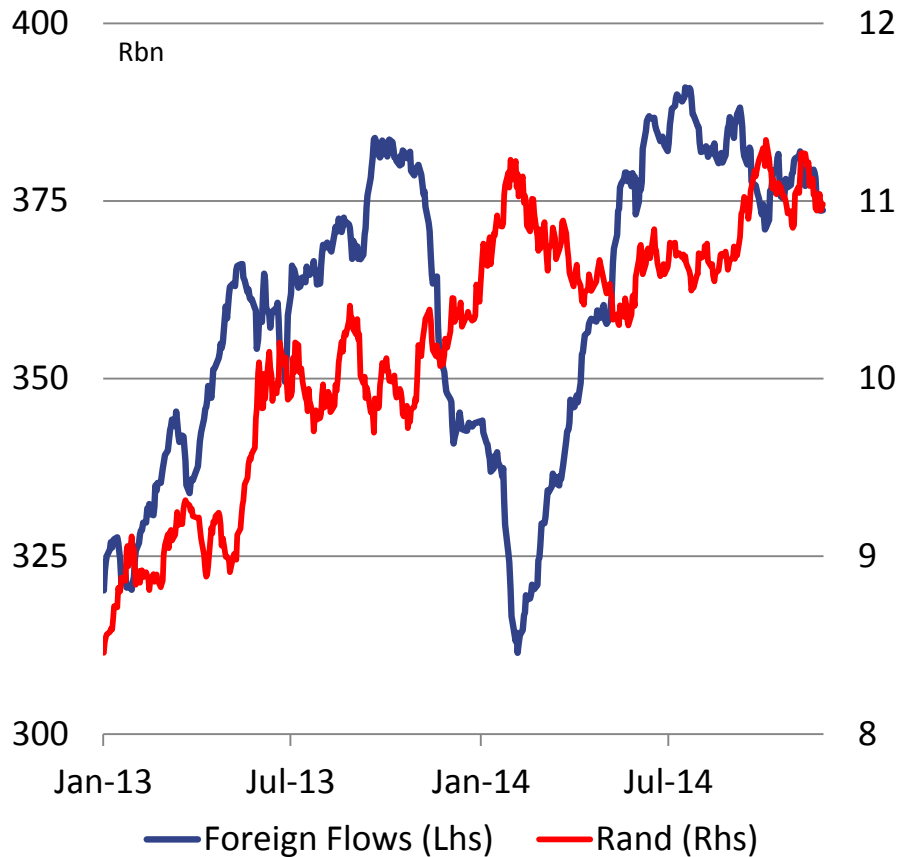
US Dollar Index



SA: vulnerable

We are vulnerable to changing global circumstances

Foreign Flows / Rand



SA Real Repo Rate



SA: so many issues

At first glance, its hard to find any good news



Weak macro environment

- Government finances. No wiggle room
- Vulnerable to external events



What will drive accelerated growth?

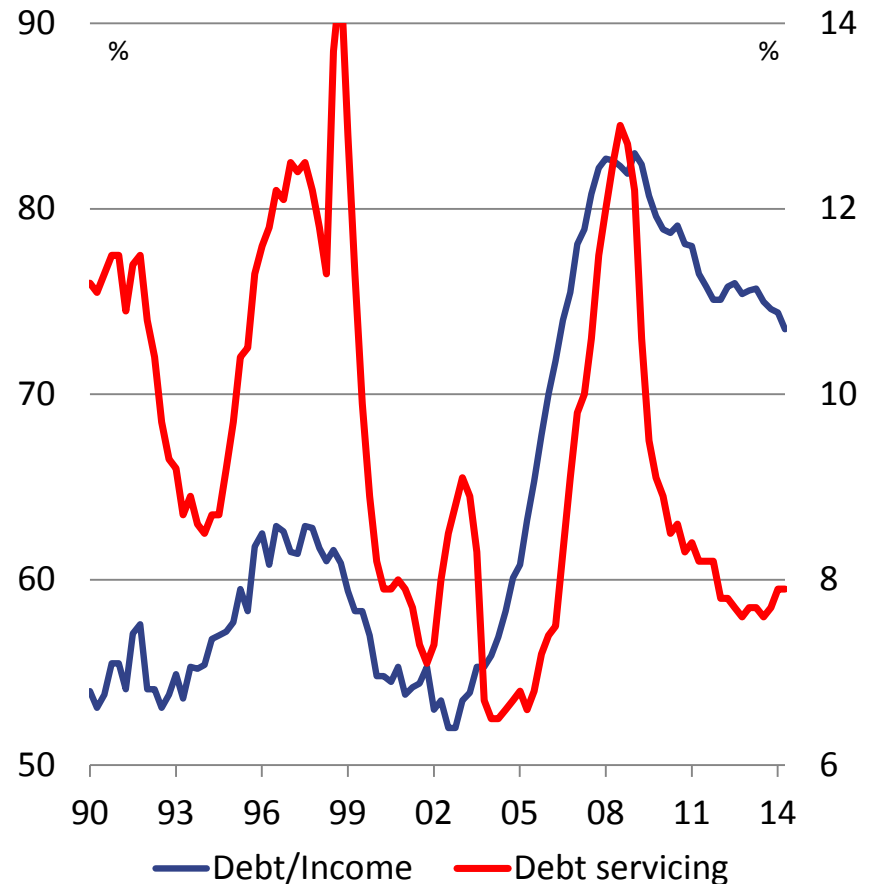
- Mining / manufacturing to normalise
- Consumption under pressure
- Tax hikes are coming



Two halves:

- H1: weak and volatile
- H2: More stable, with better prospects

Indebtedness of Consumers



SA: Rand and politics

Markets usually ignore politics until....



Rand is weak and should strengthen over 2015.

- Trade balance to improve
- Stronger against the crosses than the Dollar



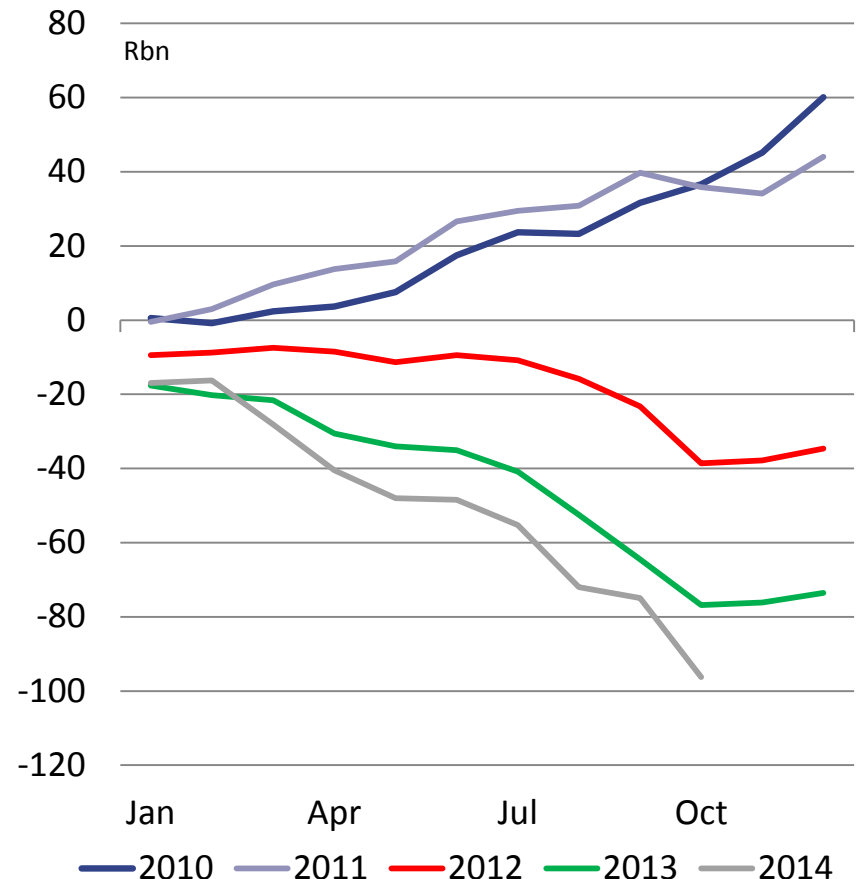
But politics is taking its toll.

- Markets normally ignore politics
- But economy policy being affected.
- Government finances are weak, taxes are rising, investment is slow and we are reliant on foreign capital.



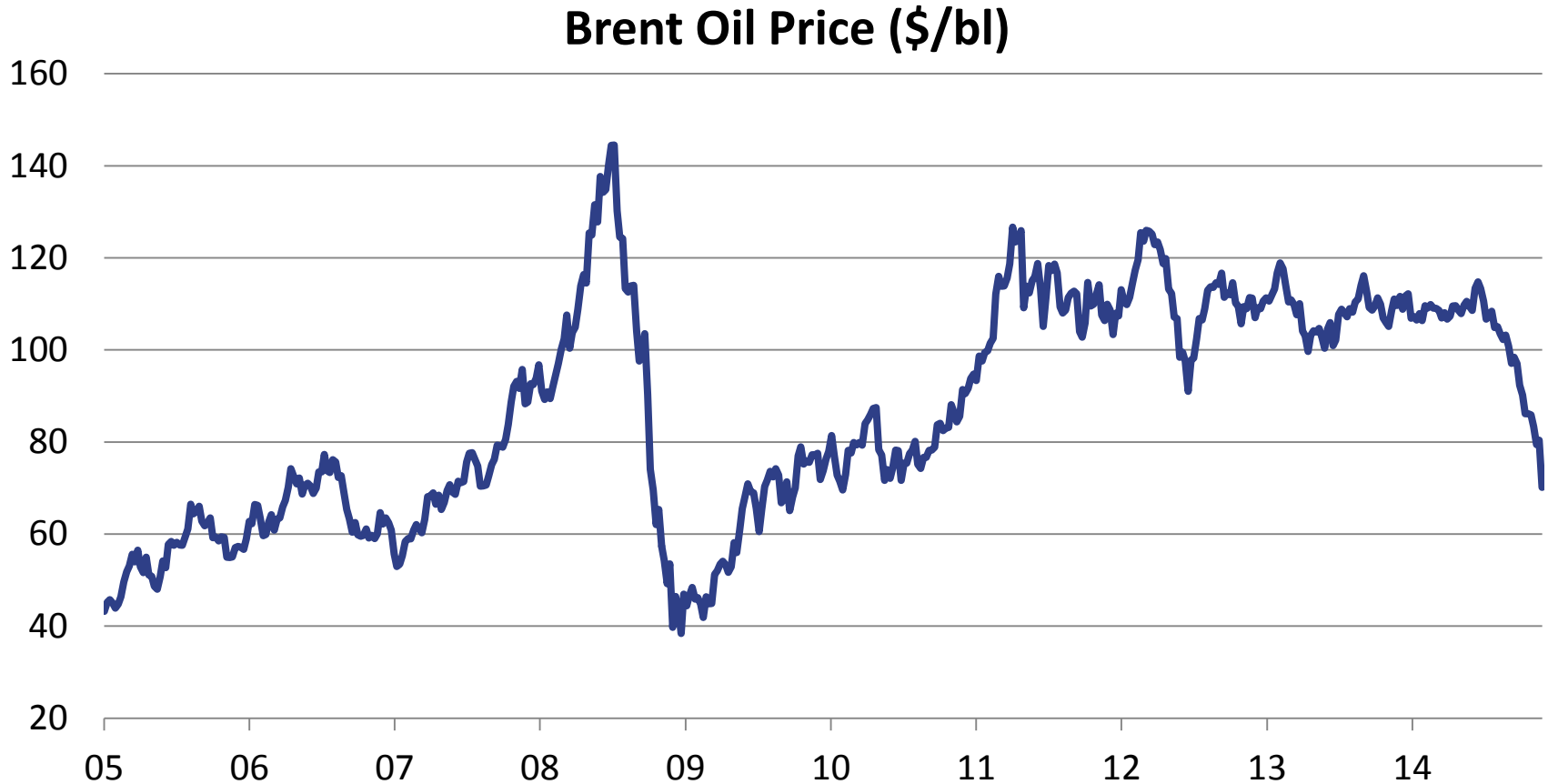
Adverse developments likely to reflect in market movements

SA Cumulative Trade Balance



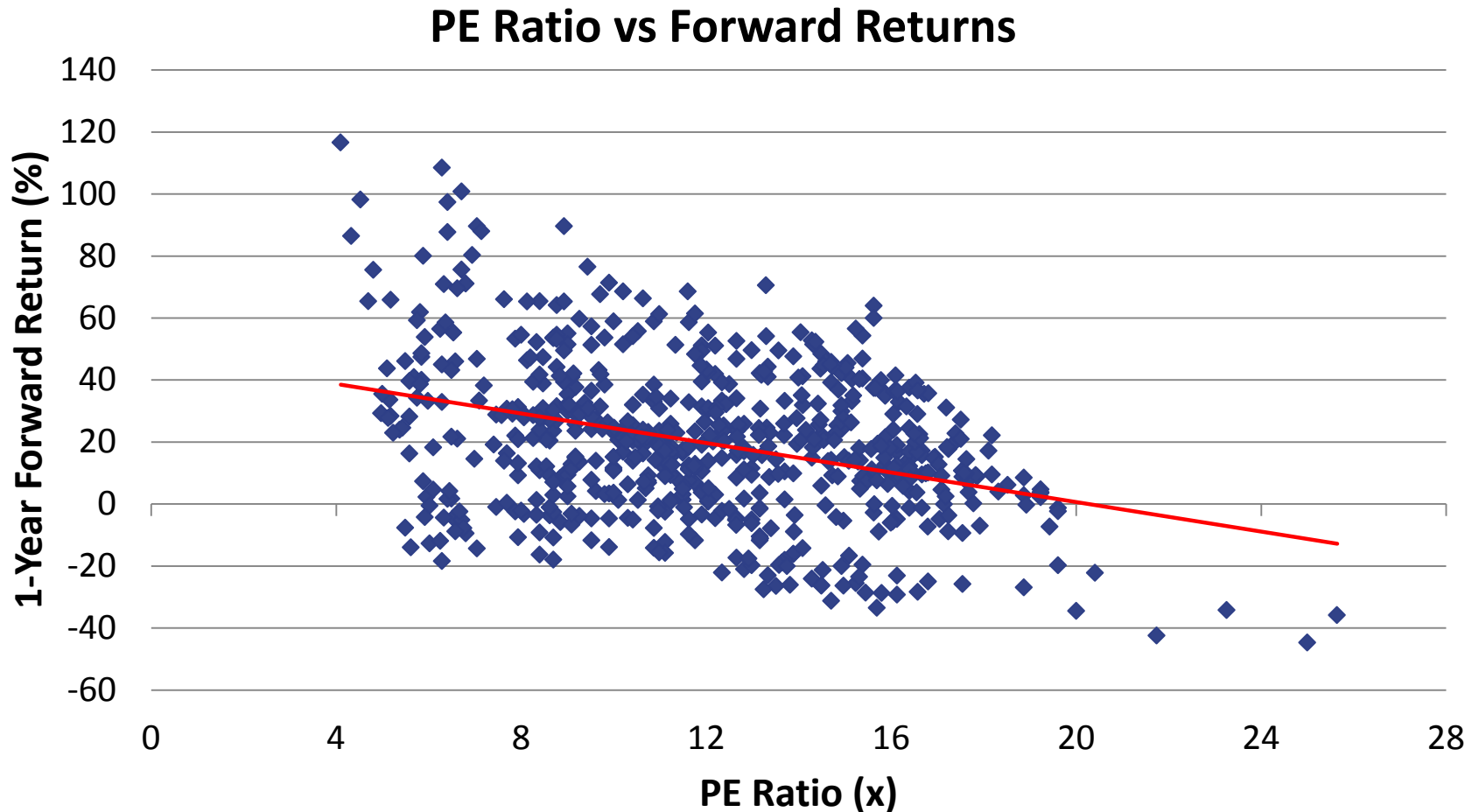
The silver lining

Falling oil prices are a major boost to most global economies, including SA



The big picture: valuations and returns

The bottom line is that local markets are still expensive



Putting it all together


A summary of our views for the next six months


-  Unbalanced global economy
 - US economy remains strong
 - Question marks over the rest
-  Interest rates likely to rise (US, UK, SA)
-  Falling oil price is a major stimulant
-  For SA:
 - Expect a tough year. Government needs to consolidate.
 - Despite weak growth, interest rates could rise.
 - Valuations have not corrected during 2014.





How does this affect your investments?

Temper expectations despite improving global growth

-  Earnings growth under pressure
 - Poor growth will feed through in '15.
 - Rand weakness no longer an offset.
 - Valuations are not priced for weak earnings.
 - Disappointments could be “punished.”

-  Asset allocation
 - SA equities still very under-owned, but can stay that way. Might limit downside.
 - Property vulnerable to rising rates and rising vacancies.

-  Our approach
 - Take profits on exceptional returns.
 - Focus on quality and secure dividends.
 - Remain invested in Rand Hedges.

-  Returns for 2015: flat for H1, but improving into the end of the year. Volatility will create opportunity.

JSE FINDI Earnings Growth





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Q & A

Please feel free to ask questions

Thank you for listening