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HOW HAVE STOCK MARKETS FARED SINCE THEIR 2007 HIGHS?

Global stock markets are still more than 30% lower than their pre-credit crisis highs in October 2007. “As at 26 February 2010 the MSCI World Index, which represents mainly developed-nation stock markets, was 32,6% lower. The MSCI Emerging Markets Index, which represents developing-nation equity markets, was 30,1% off its peak,” says Dr Prieur du Plessis, Plexus group chairman.

Although this is the case, some stock markets have managed to make up all or nearly all the losses incurred since the October 2007 peaks. “The markets in this territory are all emerging markets, most of which are in South America,” says Du Plessis. “Chile is currently the only market in positive territory (+9,4%). Others that are close to recouping their losses include Mexico (-3,7%), Israel (-7,0%) and both Brazil and Venezuela (-9,5%).”

Surprisingly enough, South African investors who decided to ride the bear market by sticking with their equities are also not too badly off. The FTSE/JSE All Share Index was 19,5% off its May 2008 high by 26 February 2010. “The All Share Index peaked much later than most global markets during 2008 because commodity prices continued to rise after the onset of the bear market,” says Du Plessis.

While the local stock market has shown below-average losses since its high in May 2008, the All Share Index has also produced below-average returns for local investors over the recovery phase since the March 2009 lows.

“In rand terms, the All Share Index has yielded a return of 47,4% from 9 March 2009,” says Du Plessis. “Foreign investors would have achieved a return in US dollar terms amounting to a staggering 103,6% over this period. This compares with a return of 92,9% for the MSCI Emerging Markets Index and 64,6% for the MSCI World Index.”

According to Du Plessis, it is extremely difficult to predict whether the local market will erase all its losses anytime soon. “To recoup a 19,5% loss, the market must rise by almost 25%,” he says.

“Although there has been a pull-back in the short term, the longer-term upward trend of most stock markets remains intact with most markets trading above their 200-day moving averages. However, markets seem to have run out of steam for now and the jury is still out on whether or not this is just a cyclical rally or a fully-fledged bull market,” he adds.

Du Plessis prefers “to err on the side of caution for now. Although it may be premature to underweight equities, I also do not believe it is prudent to be too optimistic about another 25% rise in our stock market soon.”