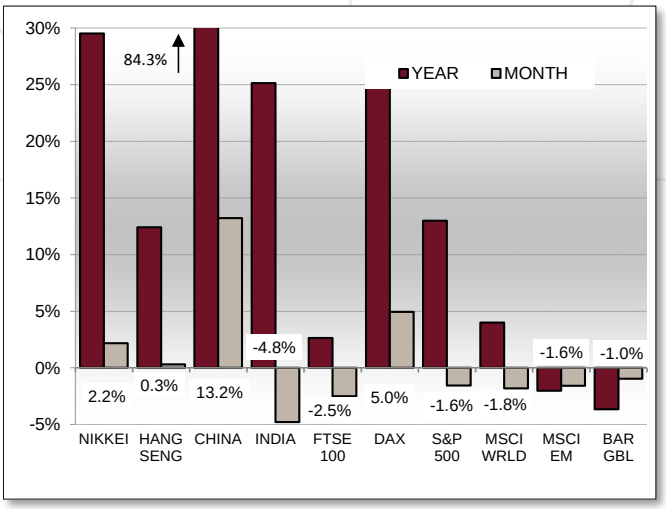
March in perspective – global markets

March proved to be a tough month for markets to negotiate, both globally and locally. Following a very strong February around the world, reality set in during March, with most equity markets peaking early in the month. The firm dollar caused investors to focus on its depressing effect on US corporate earnings and on the effects of the resultant weak euro on European exporters. The euro and pound sterling declined 3.5% and 4.2% against the dollar respectively. The rand declined 4.0% against the greenback, the Aussie dollar 2.4% and the Brazilian *real* 11.1%. The effects of the strong dollar were felt in the US equity market, which declined 1.6%, while the weak euro continued to boost German exporters. The German equity market rose 5.0%, bringing its year-to-date return to an astonishing 22.0%, versus the US equity market's year-to-date gain of 1.1%. Elsewhere, the weak yen continued to buoy the Japanese equity market, which rose 2.2%, bringing its year-to-date gain to 10.1%.

Chart 1: Global returns to 31 March 2015



Within the emerging market universe, the Chinese equity market continued to defy gravity, as investors there discount probable stimulatory policy to arrest the decline in economy activity. It rose 13.2% in March, bringing its year-to-date and annual gain to 15.9% and 84.3% respectively. Apart from China and to a lesser extent India, most emerging markets paint a sorry picture of weak currencies, weak equity markets and economies under threat, much of which is due to inappropriate policies. The Indian equity market declined 4.8% (but is still up 25.2% over the past year), Russia fell 2.0%, Brazil lost 0.8%, Turkey lost 5.9% and Greece 11.9% (the Greek equity market has declined 42.0% over the past year).

On the commodity front, the strong dollar continues to take its toll on prices in general. Gold, platinum and palladium declined 2.4%, 4.9% and 9.0% respectively. Oil fell 9.4% after its 18.7% February surge, while industrial metals were also weak. Iron ore continued to plunge, falling 17.1% in March, bringing its annual *decline* to 54.7%. Disappointing economic data out of the US led to US bond yields declining slightly and prices rising 0.5% although the Barclays Capital Global bond index declined 1.0%.

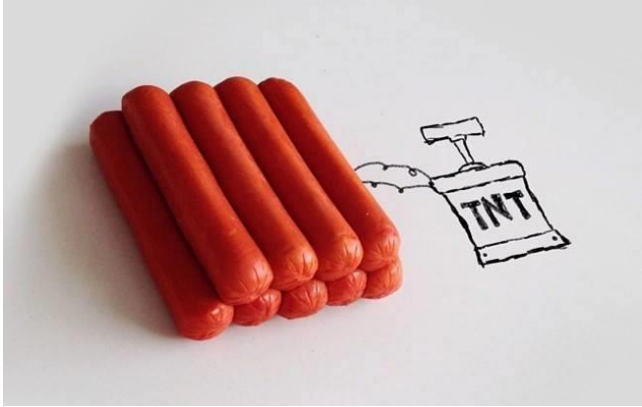
Notwithstanding the recent market tribulations, it is worth highlighting that during March the German equity market reached an all-time high, the Japanese market, as measured by the Nikkei 225 index, rose through the 19 000 level for the first time in fifteen years and the Chinese equity market rose to a seven-year high. Not to be outdone many developed economies' bond market yields sank to new lows i.e. their prices rose to record levels. So dramatic were the moves that many of them are now trading at a negative yield i.e. you have to pay governments to give them money! I was going to tell you about the record low yield of 0.19% which 10-year German bonds reached on 12 March, but it seems irrelevant, given that the yield at the time of writing has sunk further to 0.08% - such are the historic movements in bond markets at present.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

What's on our radar screen?

Here are a few items we are keeping a close eye on:

- *The South African economy:* SA retail sales increased by 1.7% in the year to January, slightly lower than the 2.0% annual rate in December. Data released by the SA Reserve Bank (SARB) showed that the fourth quarter (Q4) current account deficit was R198bn or 5.1% of GDP, lower than the revised Q3 deficit of 5.8% (R223bn). A scary aspect of the trade deficit i.e. the (trade-related) difference between imports and exports, is that it now only accounts for a third of the total current account deficit. The remaining two thirds consists of the services account, which encompasses capital flows to and from foreigners, such as loans to and from foreign parent companies, dividend payments abroad, loans from offshore corporates to the banking sector, interest payments to non-residents, etc. Of course, these are not always directly linked to the state of the economy; they have a life of their own. In other words, they are volatile and harder to control by means of policy. So, while the trade account more than halved (R77bn to R35bn) between Q3 and Q4, this was to a large extent offset by the amount of dividend payments abroad.
- *The US economy:* US retail sales declined 0.6% in February, following a 0.8% decline in January and continuing the disappointing news emanating out of the US economy. In fairness though, much of the US was gripped by inclement weather during the measurement period, which may have distorted the data somewhat. Online sales rose 2.2% on the month, suggesting that consumers simply stayed at home and shopped online. The disappointing retail sales data forced economists to scale back their expectations for US economic growth in the first quarter of 2015, to below 2.0%. One recalls events from precisely a year ago when the US economy slowed dramatically during the first quarter of 2014 on the back of severe weather across the US. Headline inflation dipped into negative territory in March. Prices declined 0.1% during the past year although core inflation, which excludes volatile food and energy prices, rose 1.8%.



- *Developed economies:* Eurozone inflation in the year to March displayed similar features to the US; annual headline inflation moved to -0.1% while core inflation came in at 0.6%. There is encouraging evidence of an increase in the level of economic activity in the Eurozone, but it is still very early in this cycle and we need to watch this development closely.
- *Emerging economies:* **Russia** cut its interest rate by 1.0% to 14.0% as the Central Bank of Russia (CBR) placed the interests of the slowing economy (the CBR expects the latter to shrink by 3.5% to 4.0% in 2015) above those of rising inflation (currently at 16.7%). Russia is still coming to terms with the collapse of the oil price late last year, which has been compounded by economic sanctions and escalating inflation. In the

January edition of *Intermezzo* we featured a section entitled "What's going on in China?" Since that time there have been a number of major features on the Chinese economic landscape for which we, sadly, do not have time for here. However, we are watching these developments very closely and they are playing an increasingly important role in fashioning the prevailing investment landscape. **Chinese** inflation rose to 1.4% in February from January's 0.8% while producer price inflation declined to -4.8%. The respective March annual consumer and producer inflation data came in at 1.4% and -4.6%. The Chinese economy grew at an annualized rate of 7.0% during the first quarter (Q1) which was better than expected. However, accompanying data releases provided plenty of evidence to suggest that the economy is slowing down sharply. Consequently the Chinese authorities have announced a number of stimulatory and accommodative policy measures, including a 1.0% reduction in the amount of capital banks need to hold in reserve, the so-called reserve ratio requirement or RRR. This is a significant cut in the RRR by the Peoples' Bank of China (PBoC) and is indicative of the seriousness with which the authorities are tackling the slowdown. In anticipation of this, and further stimulus, investors are piling into the equity market in no small measure. In one day alone the value of trade on the Shanghai equity market totalled $37bn! At the time of writing the Shanghai composite index has just about doubled during the past year – it is up 108.1% to be exact. So, in short, as we have been doing for the past decade, we will be watching developments in China very closely.

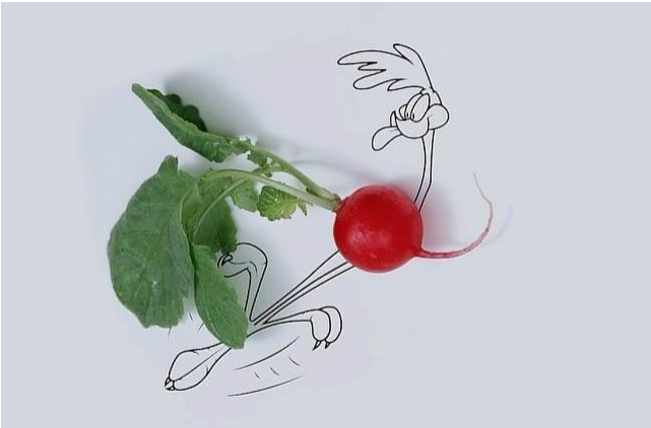
Some quotes to chew on

Now there's a thought!

Just to stretch your thinking a little bit, the following is an extract from *Deutsche Bank's Jim Reid*, which appeared in his *Early Morning Reid* on 23 March. It is a thought-provoking stuff indeed! He wrote: "As you'll also remember from last week, Bank of England chief economist Andy Haldane suggested that the next move in rates might actually be down. While he appears to be a lone voice at the top of the BoE it is an interesting development. The UK has become a high yielder in Europe and the currency has responded accordingly which might eventually persuade more at the bank that they may have to consider a more dovish stance. Could these thoughts translate across the Atlantic? Indeed it's worth repeating our thoughts on Friday where we suggested that if you were just presented with the facts on the US economy from scratch with no bias would you say the next move in rates would be up or down? We're all anchored to expecting a rate rise to come sooner rather than later (for well-known reasons) but with negative inflation, the weakest recovery on record, low wage growth, a decade plus high in the currency, economic surprises at 6-year lows and still near record debt levels an outsider starting from scratch might well conclude that the economy needed more stimulus not less, especially if they weren't told the current Fed Funds rate. As we said on Friday removing stimulus to stop rolling bubbles is a valid reason to hike but it's a dangerous one given how addicted markets have become to stimulus. So overall, I wonder what probabilities you'd get on the next move from the Fed being an easing one?"

3 Big Shocks of Q1

In their weekly document The Thundering Word, *Merrill Lynch's Chief Investment Strategist Michael Hartnett* lists his "3 Big Shocks of Q1" and some interesting data and views on the market. (*Ed*: forgive the short-hand, but this is what we poor investment managers have to put up with. ☺ The italicized sections are mine, though, to emphasize his points.) His first shock is **the dollar shock;** he notes the quarterly returns of shares of 2.4%, bonds -1.7%, commodities -4.9% and the dollar, up 9.0%. "Note in the past three quarters (Q3, Q4, Q1) global bonds have suffered three consecutive quarters of losses (-2.9%, -0.7%, -1.7%), so have commodities (-13.7%, -21.3%, -4.9%), while the US dollar has appreciated sharply for three consecutive quarters (+7.7%, +5.0%, +9.0%). The only comparable period of such performance was ominously Q3/Q4/Q1 during the Lehman shock of 2008/9. The dollar surge (and its negative impact on commodity prices) was writ large across global equity markets: Year-to-date (YTD) winners = Russia, Japan, Portugal, Germany. YTD losers = Greece, Brazil, Turkey, Canada; YTD sector winners = healthcare, consumer discretionary; YTD losers = utilities, energy. *Stocks have nonetheless been extremely resilient, most particular those relating to Silicon Valley's boom: the market cap of US Tech & Biotech sectors is now $4.2trillion (tn), thus exceeding that of the entire Euro-area ($4.1tn) and also that of all Emerging Markets ($3.9tn).*" He continues to list his second shock as **the policy shock**: "Global rate cuts in Q1 = 25, fastest pace since 2008/9 (since Lehman rate cuts now total 568). Policy easing was bullish for stocks: 16 equity indices hit all-time highs in the past 30 days…. Thanks mostly to Europe, the total amount of negative-yielding debt = $5.2tn. European stocks soared in local currency terms. In dollar terms Europe underperformed Japan, and only modestly outperformed the Pacific Rim." The final shock was the **EPS (earnings per share) shock:** "GDP growth in the Euro-area (roughly 2%) is likely to have been stronger than GDP in the US in Q1 (roughly 1-1.5%) for the first time since 1Q14… And weak US growth coincided with fresh declines in global EPS growth. Forward global EPS down 11.3% since Jul'14 peak; energy -53%, but broader notable deterioration in staples -11%, industrials -8%, financials -7%, also. *And as EPS slows, the question of how such an unprecedented era of monetary policy easing has led to such a timid recovery in global growth is again rekindled* (my italics)."



Is negative the new normal?

Sarasin & Partners Chief Investment Officer Guy Monson wrote a thought-provoking article a few days ago about the effects of the ECB's latest monetary (QE) policy. In it, he noted that, by virtue of the fact that the ECB has committed itself to buying significantly more sovereign bonds than are being issued at present, the shortage of bonds will affect market prices disproportionately and will distort other assets classes as well, particularly eurozone equities (exporters in particular) and the euro itself. His introduction was prescient: "This month saw global investors agonizing over the nuances and wording of Janet Yellen's tightly managed US Federal

Reserve (Fed) statement, while in Europe the European Central Bank (ECB) was surrounded by 10,000 demonstrators, water cannon and riot police, as the International Monetary Fund (IMF) and Greek government traded insults across the financial news networks. The contrast between the order and gradualism of Yellen's first steps to normalizing US money policy versus Mario Draghi's often chaotic and contradictory road toward full-blown QE could hardly be greater. But it is upon Frankfurt – not Washington – that investor interest should now be focused, as a normally staid ECB sheds its Bundesbank heritage and launches a truly radical €1.1 trillion asset purchase program. The ECB has finally earned the dubious distinction of being the world's most daring and experimental central bank. Global investors should take note."

Who said we aren't living in interesting times?
At the risk of a bit of repetition, I thought the following synopsis of the first three months of 2015 from *Merrill Lynch's Global Investment Strategist Michael Hartnett* was informative. "Thus far in 2015, in 67 trading days, (we have experienced):

- 26 rate cuts by global central banks (569 since Lehman)
- Oil price finds a floor around $50/b after 60% collapse
- Q1 represents the third consecutive quarter of positive return for US$, negative return for bonds and commodities
- US dollar (DXY) quarterly return in Q1 was the sixth largest since 1971
- 2015 US EPS now projected to be negative (first time since 2009); US GDP again disappoints
- $5.3trn of government bonds trade with negative yield
- March sees more than €60bn of Euro corporate bond issuance, largest ever
- Swiss issue 10-year sovereign bond at a negative yield, first time ever
- Mexico launches a €1.5bn 100-year Euro bond issue at 4%
- Swiss franc surges 25% intraday
- Market cap of US tech/biotech exceeds that of both Emerging Markets and Eurozone
- Shanghai stocks surge 24%; Russia equities jump 33%
- Best performing mega-caps: Gazprom (21%), BASF (19%). Worst: Wal-Mart, HSBC (both -6%)
- Portugal CDS narrows 76pps, Greece widens 876pps
- ECB goes "all-in", Fed "blinks"
- Even Iran's stock market has rallied"

You can't say we aren't living in interesting times!

European bond markets – the surprise of the year so far?

During the course of the past few months we have hinted at the remarkable events in the bond market, which are closely related to the unprecedented monetary policy (QE) currently being metered out by global central banks, the firm dollar, the eurozone economic slowdown and a host of other inter-related features of the prevailing environment. By now you would realize that all these factors are intertwined, so much so that it is hard to isolate one feature without focusing on related influential factors.

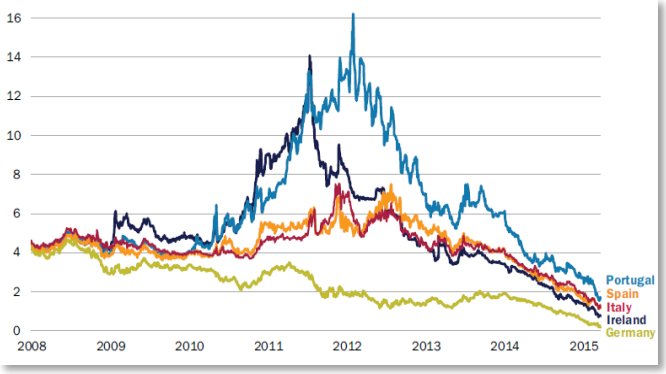
So it is that, while we have hinted at bond market developments, specifically the inexorable grinding lower of bond yields (and the increase in prices, for bond prices and yields are inversely related), it is worth focusing just on European bond yields for a moment. Every month they just seem to tick lower; it feels like just the other day that US and German 10-year bond yields were at similar levels. Yet at the time of writing, US 10-year

bond yields are at 1.9% and comparable German yields are at 0.08%! What is happening out there and where is this all going to end?

The answers to these questions are too long for us to begin explaining them here. Suffice to say is that as the European Central Bank (ECB) continues to buy bonds as part of its stimulatory monetary policy (remember this is only the first of an 18-month, €1.1tn QE program) investors have essentially "front run" the ECB, knowing full well that there are insufficient bonds to go around. That has led to some remarkable events, not least of which was the first ever issue of 10-year bonds by the Swiss National Bank at negative yields. In other words investors paid money to the Swiss government take on their debt. That has never happened before – no one can say we aren't living in historic times!

This is what *Deutsche Bank's Jim Reid* had to say on the historic day in European and Swiss market history; "I wonder what Dipsy and Laa-Laa (of Telly-Tubby fame) would have made of yesterday's first ever 10-year government bond auction issued at a negative yield with Switzerland's new deal clearing at -0.055%. With 500 years of bond market data to look back on we've never seen anything like this before. Will Switzerland be the only country that ever manages such a feat or will we see a few more in this cycle? On this, 10-year (German) Bunds dropped another couple of basis points yesterday to now trade at 0.161%. So it's not beyond the realms of possibility that Germany will be next."

Chart 2: 10-year government bond yields (%)



Source: Sarasin and Partners

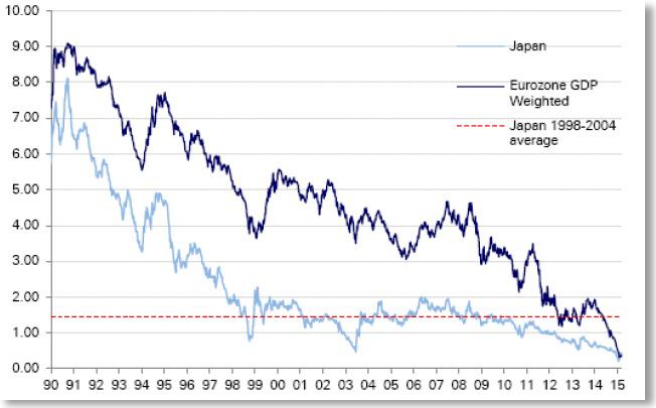
As yields have charged lower, apart from the odd exception like Greek bonds (for reasons we all appreciate), there has been a remarkable convergence of bond yields - refer to Chart 2 - which simply means that bond investors are viewing all the inherent sovereign risks of different countries as equal. Of course, that just doesn't make sense. That is the result of central banks distortionary interference, or financial repression as we all now know it. Thus, the UK's 10-year bond yield is around 1.57%, but Germany's and France's are 0.08% and 0.35% respectively. Portugal's is 1.98% and Spain's 1.46%. Compare all of these yields with the US yield of 1.89%. One has to ask, is Spain really a lower risk than the US (1.46% versus 1.89%)? Or Portugal a similar risk as the US (1.98% versus 1.89%)? Who would you rather lend money to for a ten-year period? Portugal or US? Exactly! It goes to show how distorted the prevailing markets are, particularly fixed income (bond) markets.

Of course there currently are, and also certainly will be, significant consequences of these remarkable events, but that will have to wait for another day and, quite frankly, I don't think there is anyone alive today who really knows where this is all going to end. What is clear from our point of view – obviously from the market's perspective,

too – is that there is nothing on the immediate horizon that is likely to change the prevailing trend. So as we say in the profession, for now we must "go with the flow". One day we will surely make sense of it all, or more realistically, our children and their children will have to make sense of it all!

Finally, I have concentrated on European yields here, but the Bank of Japan (BoJ) is going through the same process. So we should not be surprised that Japan bond yields have headed in the same direction as European yields, even though they started from a much lower base – refer to Chart 3 in this regard. This is the ultimate race to zero!

Chart 3: Japanese and Eurozone yields (%)

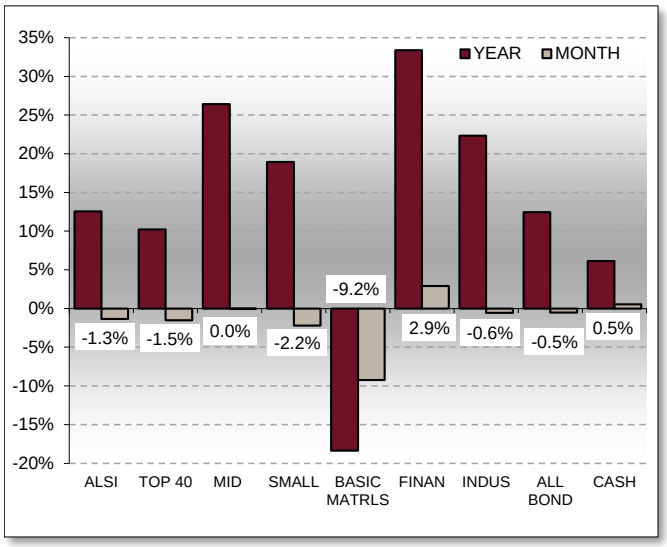


Source: Deutsche Bank

March in perspective – local markets

The above trends and influences set the scene for a lackluster month on the SA equity market. The All share index declined 1.3%, led by the basic materials index, which ended down 9.2%. The gold index fell 10.7% and is now down 14.3% over the past year. Financial shares continued to head higher, rising 2.9% - their year-to-date gain is now 11.2% - while industrials lost 0.6% (year-to-date gain of 5.6%). The All bond index lost 0.5%. Across the size (market cap) spectrum, large cap shares lost 1.5%, mid caps were unchanged and small caps declined 2.2%. Interestingly, in the US large caps lost 1.6% in March while mid and small caps gained 1.2% and 1.4% respectively. In SA, the annual returns from large, mid and small caps now stand at 10.2%, 26.4% and 18.9% respectively. Of interest, too, are the respective annual returns to end-March of the All share index and All bond index of 12.5% and 12.4%. The best performing sectors during March were the household goods sector, which rose 13.2% (think Steinhoff, which rose 13.0%). Software and computer services rose 9.2% (EOH rose 17.5%) and media 9.1%. The worst performing sectors were industrial metals, which declined 25.9% (Kumba fell 31.9%), while the platinum mining sector fell 17.8% and coal mining 12.0%.

Chart 4: Local returns to 31 March 2015



For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

Table 1: The returns of funds in Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity				
Prescient Fund	**Mar**	**1.1%**	**7.6%**	**18.7%**
JSE All Share Index	*Mar*	*-1.3%*	*5.9%*	*12.5%*
Retirement Funds				
Maestro Growth Fund	**Mar**	**1.3%**	**6.1%**	**18.1%**
Fund Benchmark	*Mar*	*-0.5%*	*4.9%*	*12.5%*
Maestro Balanced Fund	**Mar**	**1.1%**	**5.5%**	**17.0%**
Fund Benchmark	*Mar*	*-0.4%*	*4.5%*	*11.9%*
Maestro Cautious Fund	**Mar**	**0.9%**	**4.2%**	**16.3%**
Fund Benchmark	*Mar*	*-0.4%*	*3.3%*	*10.1%*
Central Park Global Balanced Fund ($)	**Feb**	**4.0%**	**3.2%**	**3.2%**
*Benchmark**	*Feb*	*2.3%*	*1.7%*	*2.7%*
*Sector average **	*Feb*	*2.4%*	*2.6%*	*3.3%*

* 40% MSCI World Index, 20% each in Barclays Capital Global Aggregate Bond Index, Dow Jones Credit Suisse Hedge Index and 3-month US Treasury Bills
** Morningstar USD Moderate Allocation ($)

It is not in Maestro's nature or ethos to brag. We have been around long enough to know that investment markets are the ultimate "leveler"; before you have finished being arrogant the market will humble you in no uncertain fashion. So I cautiously draw your attention to the fact that all the assets Maestro's management are currently performing very well in absolute and relative (to the competition) terms. While the returns contained in Table 1 speak for themselves, they do not highlight the extent to which the Maestro Equity Prescient Fund has crept comfortably into the top quartile of funds over most periods, or the relative performance of all the retirement funds under our management. I don't think it is coincidence that we as a team are thoroughly enjoying the investment markets at present. This may sound like a silly comment, but we are living in such unprecedented times and are learning so much, it is hard not to have a lot of fun at the same time. But let me say no more, lest the markets make me eat my words! ☺

Return to 5000 – 15 years down the road

Last month I promised to include a section on the 15th anniversary of the Nasdaq (US equity index) reaching an all-time high before crashing down unceremoniously in what has since come to be referred to as the tech-wreck, the Y2K bubble or just simply the market crash in 2000. I was fortunate enough to be in New York in March 2000 (ironically attending a tech conference), the month the market hits its all-time high. Sensing its relevance in market history, I retained the front page of the Wall Street Journal, which has subsequently become quite a special memento. So I am fortunate enough to be able to review what was said on that day, and I thought I would share some classic snippets with you from that historic day's reporting.

But before I do that, let us take nothing away from its significance in history. We forget how rapidly the world has changed. Can you remember what your cellphone looked like in 2000? Do you remember what the tech landscape looked like? There was no Google, no Facebook, and no smartphones. Networks, LANS and WANS were all the rage – remember those? The tech companies that dominated the market were what I would loosely call the infrastructure builders; companies that laid down fibre optic communication networks and those that connected them all together; the companies that built the semiconductors that enabled the early devices that used the networks. If you are old enough to remember these aspects of that period, I think you will find Table 2 of interest, as it plots the markets that dominated the Nasdaq's rapid ascent to the 5000 level. There are many numbers in the tables but take time to appreciate their significance; this was the period that tech came of age, an era from which we have all benefitted, the era of the pioneers that

led the way with which we are now so familiar and, let's face it, without which we would be far less efficient.

For good measure I have included Table 3 which plots the change in market cap (size) of the leaders when the Nasdaq reached 5000 in 2000, relative to where they are today. It doesn't make for happy reading, as interesting as it is. But of course it represents only one side of the story; what we aren't seeing are the leaders that took up the baton and moved us all into the 21st century and the remarkably enabling world of technology.

With that by way of background, here then are some interesting snippets from the Wall Street Journal of Friday, March 10, 2000. I have interspersed them amongst the tables indicating which Nasdaq stocks pulled the index from one level to the next.

- The headlines alone smacked of market arrogance, an invincibility that would come back to haunt investors: "Nasdaq pumps up to 5000". "Who can carry the baton in the race toward 6000?" "Numbers game: youthful Nasdaq gains stature against blue chips".

Table 2: NASDAQ drivers: 500 – 5 000

NASDAQ: 500 – 1 000			
Companies	Market cap ($bn) At milestone	Net change	% Change
Intel	$63	$52	485%
Microsoft	64	51	415
Oracle	18	17	1 139
Cisco Systems	16	15	1 889
Applied Materials	9	8	1 474
Amgen	13	5	99
MCI Worldcom	5	5	1 915
3Com	5	5	1 800
Tellabs	4	4	2 180
Informix	4	4	4 205

- "It's out of control", said Patrick Davis, head of Nasdaq trading at PaineWebber"
- "What could stop the Nasdaq's climb from here is anyone's guess."

NASDAQ: 1 000 – 2 000			
Companies	Market cap ($bn) At milestone	Net change	% Change
Microsoft	$289	$225	353%
Cisco Systems	99	84	535
Intel	143	80	126
Dell Computer	72	69	2 208
MCI Worldcom	57	52	1 021
Sun Microsystems	10	14	301
Fifth Third Bancorp	16	12	334
Tellabs	15	11	256
Costco Wholesale	14	10	298
BMC Software	12	10	528

- "The Nasdaq composite has defied almost all expectations by coming off last year's historic 86% gain with an even stronger start to this year. It is up almost 24% so far this year (*Ed*: remember it was only the 10th of March) – that is already just under the full year gain in 1999 for the Dow, of 25%. By contrast, the Dow is down 12.9% so far this year and the S&P is down 4.6%."

NASDAQ: 2 000 – 3 000			
Companies	Market cap ($bn) At milestone	Net change	% Change
Microsoft	$464	$175	61%
Cisco Systems	230	131	132
Intel	265	122	85
MCI Worldcom	158	101	178
Sun Microsystems	83	64	339
Oracle	82	55	203
Yahoo!	47	38	441
Qualcomm	42	38	969
Dell	107	35	48
Applies Materials	35	24	208

- (*Ed*: this is my best line) "Today, four of the six largest stocks in the country in terms of market capitalization are now traded on the Nasdaq, and their average PE ratio is 120. Never before have the stock market's largest companies

traded with triple-digit ratios. More remarkably, fully 20% of the Nasdaq's value is made up of companies that have gone public only since the beginning of 1999, and three-quarters of them have no earnings and thus no PE ratio".

NASDAQ: 3 000 – 4 000			
Companies	Market cap ($bn) At milestone	Net change	% Change
Microsoft	$595	$131	28%
Cisco Systems	342	111	48
Oracle	156	75	92
Qualcomm	109	67	160
Yahoo!	106	59	127
Ericsson	117	43	59
Sun Microsystems	122	39	47
JDS Uniphase	54	38	248
Veritas	54	26	96
Dell	106	26	25

- "Still, some investors are wondering if it has all gone too far. Michael Weiner of Banc One Investment Advisors, says the half dozen companies specializing in fibre optic networking boast a combined market cap of $200bn, when the most optimistic forecast of the market for their products five years from now is $20bn.

NASDAQ: 4 000 – 5 000			
Companies	Market cap ($bn) At milestone	Net change	% Change
Intel	$395	$115	41%
Cisco Systems	478	114	32
Oracle	237	82	53
Ericsson	180	63	54
Sun Microsystems	154	30	24
JDS Uniphase	68	26	63
Juniper Networks	42	26	150
Applied Materials	73	25	51
Network Appliances	36	24	192
PMC-Sierra	33	23	230

There is plenty more to reminisce about, but let me draw to a close. It might sound a bit trite, but it is good to recall, at least those of who have been around long enough, what a market frenzy really feels like! At the risk of tempting fate, the arrogance and frenzy, and the mass-(retail) market hype experienced in 2000 is, at least in my humble opinion, simply not around today. So that should allay any fears about an imminent market crash that I still hear frequently from many investors. At the risk of depressing you all, I suspect the problems we are busy creating for ourselves – or perhaps we should blame policymakers – through trillions of dollars of QE, zero interest rates and negative yields, are far more serious than a "mere" market bubble. Market prices can crash and recover, as we have seen in the past fifteen years. I suspect it will be more difficult to restore dignity and hope to a lost generation of unemployed youth in 10 or 15 years' time. Or resolving a human crisis born out of investors and pensioners who once believed they could live off the interest and income on their hard-earned savings. That, I would humbly suggest, is a social problem far more serious than an over-priced market.

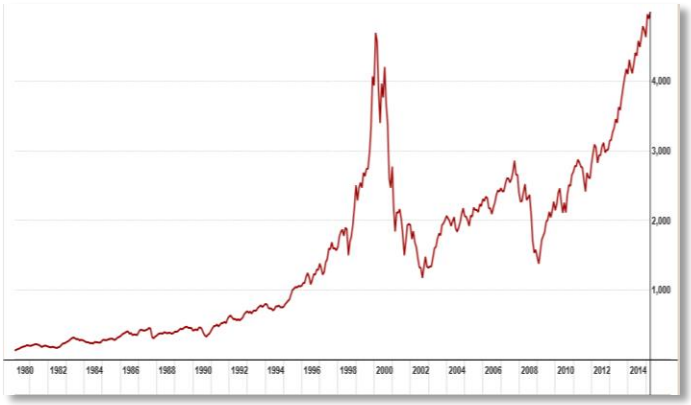
Table 3: "Y5K": where are they now?

NASDAQ: 5 000 in 2015. Where are they now?		
Companies	Current market cap ($bn)	Change from 2000 peak (%)
Intel	$148	-57%
Cisco Systems	141	-64
Oracle	189	-4
Ericsson	42	-95
Sun Microsystems	Acquired by Oracle in 2010	
JDS Uniphase	3	-99
Juniper Networks	10	-89
Applied Materials	28	-56
Network Appliances	11	-72
PMC-Sierra	2	-96

I would love to hear any of your comments on, or experiences of, the 2000 market crash. You are more than welcome to share them with me on andre@maestroinvestment.co.za. Or if you

would like to hear more snippets from that time, let me know; there are plenty more to share.

Chart 5: Nasdaq since inception: 1971 to date



Source: FT.com

File 13: things almost worth remembering

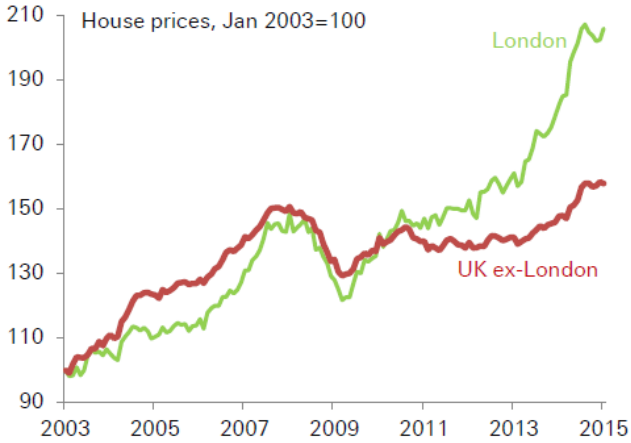
"Buy now while stocks last"

With global interest rates, at least in the developed world, at record low levels, we should not be surprised at the significant increase in Merger and Acquisition (M&A) activity so far this year. During the first quarter of 2015 alone, M&A activity increased 24%; the aggregated value of deals announced in the March quarter was a mind-boggling $847bn. As if to underline that point, on 9 April alone (remember this will be recorded as Q2 M&A activity), two deals to the value of $100bn were announced. With so much corporate activity around and the fact that so many companies are buying back their own shares (many are even raised debt to pay dividends, which is financially viable given the low rates at which they can issue debt), there is much greater demand for equity than is being issued, which must be another factor underpinning strong equity markets at present. Given our outlook for the global economy, it is hard to see this trend being reversed any time soon.

And now for something different…

When I saw the following chart I couldn't help thinking of all our UK readers, many of who find themselves in London, and of my UK friends, who have often commented on the bifurcated UK economy; "there's London, and then there's the rest of the UK". So just for your benefit, here is a chart of UK and London house prices. Of course I don't have to tell my UK friends this – they have experienced it. But it is an interesting chart nonetheless. I suspect a chart of New York or Hong Kong house prices would look similar.

Chart 6: UK house prices



Source: Deutsche Bank

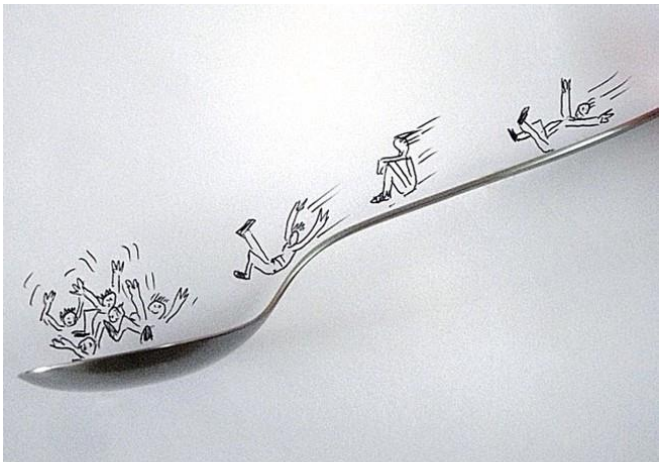
More useless information

During the course of conversation at a morning meeting recently, we came across the fact that the total market cap (size) of all stock (equity) markets around the world is around $63tn. While that number is hard enough to quantify, we know that between the BoJ, BoE, the Fed and the ECB, these central banks alone have flushed more than $23tn into global capital markets since 2009 i.e. an amount of money equivalent to just more than a third of the combined total of all listed companies in the world! That places the size of QE into perspective. Think of all the profits that the $63tn generates each year, the billions of

dollars of dividends they pay to investors each year, the amount of employment the companies create and the amount of taxes these companies pay. And the benefits of the $23tn of QE? Mmmm…

The Devil's corner

Given the length of this edition of *Intermezzo*, we will save our comments in this section for next month.



Marking the March quarter end

Lest we forget that we are already well into the second quarter of 2015, we include below the usual tables depicting selected returns of major capital markets, for various periods. Moving from left to right, we depict the annual, calendar returns for 2014, then the un-annualized returns for the December 2014 quarter, the un-annualized returns for March 2015 quarter, followed by the annual returns for the year to end-march 2015.

Table 4: Selected returns: equity markets

	2014 (%)	Dec Quarter (%)	March Quarter (%)	2015 (%)
Japan	**7.1**	7.9	10.1	29.5
Hong Kong	**1.3**	2.9	5.5	12.4
Germany	**2.7**	3.5	22.0	25.2
UK	**-2.7**	-0.9	3.2	2.7
US (S&P500) and large cap	**14.0**	5.0	0.5	13.0
S&P Mid cap	**8.2**	5.9	4.9	10.6
S&P Small cap	**4.4**	9.5	3.6	7.3
MSCI World index	***2.9***	***0.7***	***1.8***	***4.0***
Brazil	**-2.9**	-7.6	2.3	1.5
Russia	**-45.4**	-30.1	11.6	-26.0
India	**29.9**	3.3	1.6	25.2
China	**52.9**	36.8	15.9	84.3
MSCI Emerg. market index	***-4.6***	***-4.9***	***1.9***	***-2.0***
JSE All share	***10.9***	***1.4***	***5.9***	***12.5***
JSE All share ($)	***0.4***	***-1.0***	***0.9***	***-2.5***
Basic materials	**-13.4**	-15.3	2.4	-18.4
Financial	**27.3**	10.9	11.2	33.4
Industrial	**16.8**	7.0	5.6	22.3
Gold mining	**13.5**	-9.3	7.7	-14.3
Large cap (Top40)	**9.2**	0.0	5.7	10.2
Mid cap index	**19.6**	8.8	7.6	26.4
Small cap index	**20.6**	6.6	3.2	18.9

So what's with the pics?

Who knows?! Some long-suffering reader sent them to me with a request to include them in *Intermezzo*, so there you are! They are pretty cool though, don't you think? Why weren't there grazing spanners like these when I had to eat all my peas!

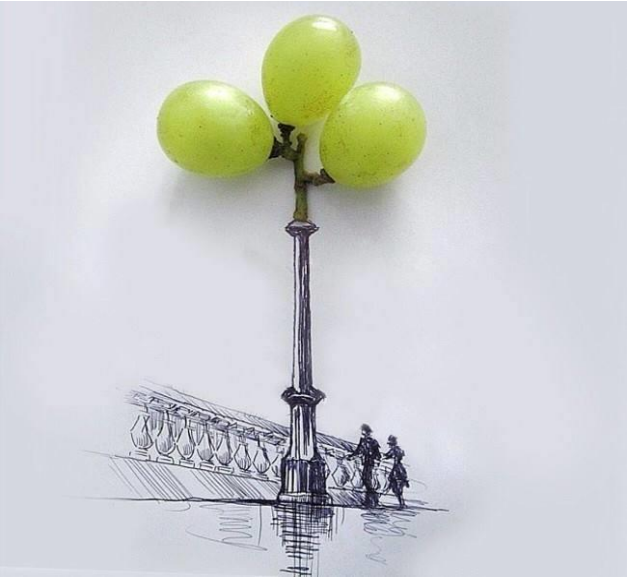
Table 5: Selected Returns: Bond, commodity and currency markets

	2014 (%)	Dec Quarter (%)	March Quarter (%)	2015 (%)
SA All Bond index	**10.2**	4.3	3.0	12.4
SA Cash	**5.9**	1.5	1.5	6.1
Barcap Global Agg. Bond index	**0.6**	-1.0	-1.9	-3.7
Emerging market bonds	**5.2**	-0.8	0.1	1.8
US 10-year bond	**10.7**	3.6	2.6	9.9
US Corporate bond	**7.5**	1.4	2.3	6.8
US High yield bond	**2.5**	-1.1	2.5	2.1
Cash (US dollar)	**0.0**	0.0	0.0	0.1
DJCS Hedge index	**4.1**	0.7	2.5	5.7
Brent (Oil)	**-47.7**	-38.8	-2.9	-47.8
Gold	**-0.2**	-1.4	-1.2	-8.2
Silver	**-19.3**	-8.1	5.9	-16.6
Platinum	**-10.6**	-6.7	-7.8	-21.1
Palladium	**12.4**	3.9	-8.7	-5.5
Copper	**-14.7**	-5.9	-3.0	-7.9
Nickel	**7.4**	-9.5	-14.2	-18.2
Iron ore	**-47.3**	-8.7	-25.2	-54.7
Baltic Dry index	**-65.7**	-26.4	-23.4	-56.4
CRB Commodity index	**-17.4**	-17.5	-8.2	-29.8
S&P GS Commodity index	**-33.3**	-27.8	-5.1	-38.2
US dollar (DXY)	**12.8**	5.1	9.0	22.8
Euro dollar	**-12.2**	-4.2	-10.5	-21.4
Sterling dollar	**-5.9**	-3.8	-5.1	-11.2
Swiss franc dollar	**11.7**	4.0	-2.6	9.5
Rand dollar	**-9.5**	-2.3	**-4.9**	-13.3

Table 6: MSCI returns to 31 March 2015

31-Mar-2015	Mkt cap* (U$bn)	USD perf (%)		
Region/Country (# Co)		2014	1M	YTD
North America (727)	20,582	10.3	-1.7	0.4
Canada (95)	1,235	-0.6	-3.4	-6.5
US (632)	19,347	11.1	-1.6	0.9
Europe (440)	8,481	-8.6	-3.0	2.9
Austria (7)	25.5	-30.9	-4.0	2.9
Belgium (11)	171	1.9	-3.5	5.9
Denmark (14)	215	4.6	4.0	14.9
Finland (12)	113	-4.1	-3.0	1.8
France (75)	1,268	-11.9	-2.5	4.6
Germany (54)	1,240	-12.2	0.3	8.0
Ireland (4)	44.4	1.0	-5.9	2.8
Italy (26)	305	-11.4	-1.4	6.8
Netherlands (23)	355	-5.0	-1.8	4.7
Norway (9)	83	-25.2	-5.3	2.1
Portugal (4)	19.6	-39.8	-1.8	7.3
Spain (23)	464	-5.8	-0.8	-0.7
Sweden (31)	401	-9.8	-4.5	4.2
Switzerland (38)	1,205	-2.3	-1.2	4.0
UK (109)	2,574	-8.7	-6.4	-2.0
Israel (9)	77.9	20.1	10.3	8.5
Asia Pac (996)	7,138	-2.5	0.1	6.1
Japan (314)	2,895	-5.7	0.9	9.5
Australia (71)	951	-7.5	-3.0	1.8
New Zealand (7)	19.0	2.6	-5.1	-3.6
Asia Pac ex-Japan (682)	4,242	-0.2	-0.5	3.9
Asia ex-Japan (604)	3,272	2.2	0.3	4.6
China (140)	902	4.7	2.4	8.1
Hong Kong (40)	409	2.0	0.4	5.3
India (64)	292	21.9	-4.3	5.2
Indonesia (30)	107.9	24.1	1.0	2.0
Korea (106)	585	-12.6	1.3	4.0
Malaysia (42)	138	-13.4	-2.5	-2.2
Philippines (20)	54.2	23.7	0.8	9.2
Singapore (29)	190	-0.6	0.2	-2.1
Taiwan (101)	501	6.9	-0.7	3.9
Thailand (32)	93.7	13.3	-2.2	1.7
EMEA (162)	665	-17.6	-3.4	1.3
Czech Republic (3)	7.9	-7.9	-2.4	-3.1
Egypt (4)	9.4	26.2	-0.8	0.1
Greece (10)	12.8	-40.3	-16.6	-29.6
Hungary (3)	8.0	-29.6	7.5	14.0
Poland (24)	58.5	-16.8	-1.0	-3.0
Qatar (10)	31.4	11.7	-5.8	-7.1
Russia (22)	144.3	-48.5	-2.7	18.6
South Africa (51)	310.5	2.5	-2.5	2.5
Turkey (25)	59.0	16.7	-6.9	-16.0
UAE (9)	23.5	11.5	-10.1	-7.9
Latin America (137)	565	-14.8	-7.6	-10.1
Brazil (70)	286	-17.4	-11.5	-15.5
Chile (20)	54.9	-14.5	-2.2	-0.6
Colombia (14)	24.7	-22.3	-8.2	-19.6
Mexico (30)	183	-10.2	-2.9	-2.1
Peru (3)	16.2	9.2	-4.0	-6.1
Developed Markets (1637)	33,605	2.9	-1.8	1.8
Emerging Markets (834)	3,903	-4.6	-1.6	1.9
World (2471)	37,509	2.1	-1.8	1.8

Source: Merrill Lynch



State of the nation – news on the home front

I am delighted to announce that Japie de Klerk has joined the Maestro team. Japie grew up in Ashton and matriculated from Stellenbosch High School in 2010. He was awarded a tennis scholarship at the University of Tulsa in the US, where he completed a Bachelor of Science degree (Finance) in 2014. He represented South Africa in the Davis Cup tennis tournament against Russia in 2013.

I have pleasure in advising you that, subsequent to the finalization of the Maestro Group restructure in January, we have appointed two new Non-executive directors to the Board of Maestro. **Alto Mboweni** has been appointed to represent Mboweni Brothers Capital (Pty) Ltd, which now owns 20% of Maestro. Alto is a chemical engineer by training. **Glynnis Jeffries** has also been appointed to the Board. Until her departure at the end of 2014, Glynnis was the head of business development at Futuregrowth Asset Management. We are delighted to have them join our Board and are looking forward to their respective contributions in the years to come.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein