

**Finance in Jersey article (Aug 2009)****Haydn Taylor****Managing Director****Banking & Investment Services****Standard Bank**

With the overwhelming majority of investors and Fund Managers positioned very cautiously, there will be many who are highly frustrated as world stock markets continue to recover at a time when economic news remains indifferent. Since the bottom in March this year, equity markets in the US have recovered by 50% with some emerging areas doing even better. However, it is quite natural for investors to look through the current recession and anticipate a recovery albeit that no one can be certain as to whether it is sustainable. Importantly, sentiment has recovered strongly from the shocks of the past two years which is good news as a significant part of company share price valuations are based on emotion and confidence, rather than the logic of merely looking at fundamental and intrinsic criteria.

Opinion has been supported by a further swing in favour of a conventional shaped economic recovery on the back of better than expected second quarter results across all sectors. Despite top-line revenues remaining under pressure, actual company profitability is holding up much better than first thought as management shed labour and improve productivity. Recent economic data is also suggesting that the massive and widespread injection of government funding is starting to impact on global economic activity. Upside growth surprises have been seen in China and in US manufacturing, housing and auto sales and these have been particularly evident in France, Germany and Japan. Closer to home, stronger readings seen in the UK Purchasing Managers Index suggest that an inventory rebuild is continuing.

So does this mean we are advocates of a traditional 'V' shaped recovery and the start of a new secular bull market? The short answer is no as we believe that the markets have largely discounted the recovery, paying little heed to the risk of the economic turnaround being rather more muted and taking more time to return to

average levels of growth. Importantly, we remain relatively cautious in that final demand by the consumer and the private sector is likely to remain weak until

evidence is seen that individuals have further reduced their borrowings and seen improvements in their incomes, jobs and house prices. All of these remain under distinct clouds whilst economic activity cannot rely on government spending indefinitely. One other cautionary factor is the 70% year to date performance of the Chinese market which is just beginning to show signs of weakness. Any sustained fall could trigger a significant worldwide correction as it did in 2007.

With regard to strategy, we recently realised short-term profits accrued following our timely decision in early March to increase our 'long only' equity exposure in our core multi asset discretionary investment strategies. Markets have marginally moved ahead since we implemented these trades but if, as suspected, the much talked about 'green shoots' are singed with frost in the Autumn, then a meaningful correction is possible which will allow cautious investors to enjoy a better long-term entry point. Our exposure to unconstrained bond funds within our Fixed Interest and Alternative Strategies exposure continues to add value as credit spreads in corporate bonds have tightened considerably in line with declining risk aversion and the more optimistic outlook for the global economy. Even so, we still consider that this area of the market offers compelling investment opportunities as investors continue to scramble for income.

The South African banking sector has remained stable throughout the global financial crisis with robust risk management practices, a relatively low concentration of exotic products in local banking models and a proactive regulatory framework all contributing to the resilience of the banking system. This has been reflected in the Standard Bank share price which has risen over the last 12 months, demonstrating confidence at a time when many other banks have seen their shares under very considerable pressure. In the current environment, our group is intensifying its focus on building revenue pipelines and strengthening customer relationships with a strong commitment to lending to our personal and corporate customers, while remaining firmly focused on risk, capital and liquidity management.

In the local market, we continue to develop the strong foundations we have built servicing both local trust companies and private clients with banking, asset management and stockbroking services including discretionary and advisory portfolio management as well as global trade execution and custody, capitalising on a very strong track record in terms of investment performance achieved by a Jersey based team. We have experienced considerable interest in our services by clients wishing to benefit from the strong risk management disciplines of a bank coupled with a flexible and local team of decision making investment managers and relationship managers who support both our banking and investment services.

With a strong presence across Africa and our growing businesses and strengthening associations in other key emerging markets, we believe that our group's strategic focus will continue to have considerable benefits over time for our Jersey based operation which now numbers nearly 300 staff.

(840 words)