

# Market volatility hits pension funds

Aug 21 2011 11:58 Lauren Thys

Johannesburg - Between the JSE's highs and lows this year, South African pension fund members have lost an estimated R121bn.

Over this period the total market value of the JSE has collapsed by a massive R687bn.

This indicates how many South Africans are directly affected by the uncertainty in global share markets, which again evidenced itself this week and also affected the South African market.

This figure is based on the assumption that 17.6% of the JSE's market value is held by pension funds, calculated in research by Investment Solutions and Alexander Forbes.

The assumption is also that the percentage has remained the same during the year.

Accordingly, the market value of stocks in the JSE's All-share [JSE:J203] index at the beginning of the year was R6 669bn, R1 176bn of which was owned by pension funds.

When the exchange was at its lowest point for the year the week before last, on August 8, the exchange's market value was R6 012bn, with R1 055bn in the hands of pension funds.

But the sharp decline in the value of pension fund investments does not necessarily mean that members' money has dissipated.

The pension funds still own the same assets, and the value of their investments will rise again when share prices improve.

The money will be lost only if the investments are withdrawn and put into cash while the exchange is still fairly far off its highs.

Since August 8 the value of pension fund members' investments in shares has already improved by R77bn.

Last year South African pension fund assets grew the fastest in 13 of the principal pension fund markets.

The bad news for investors is that analysts do not believe the end of the market's roller coaster ride is in sight because of the extensive problems in the global economy.

The past week's big declines were fuelled by concern about the liquidity of European banks, because one bank borrowed \$500m from the European Central Bank. This was the first time in six months that the central bank advanced money to a bank.

This could indicate a breach of trust among banks if they are no longer willing to lend money to each other in the interbank loan market. A similar situation led to the 2008 credit crisis.

"If banks find it more difficult to lend, they will possibly want risk less, and this could hamper economic growth in Europe," said Ian Cruickshanks, head of strategic research at Nedbank Capital.

Poor growth in the eurozone - particularly for the German and France economic giants - was what led to the past week's nervousness.

It's a source of concern for South Africa as about 35% of its exports go to the European trade bloc.

This does not bode well for South Africa. Should bigger problems arise in any of the large economies, the situation will definitely spill over here because of the interconnectivity of the global economy.

By the end of the week, certain analysts' concern increased to such an extent that they adjusted their interest rate forecasts.

"They now predict a 40% chance of an interest rate cut in November," said Cruickshanks.

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