



February 2020 Market Commentary

SA Market Overview

South African markets started February much the same as most emerging markets, with expectations of global monetary authorities announcing stimulus on the back of fears over the economic effect of COVID-19. This shifted the global investor sentiment tentatively to risk-on in the early periods of the month. By the end of the month risk assets had plunged as the investors became very fearful that COVID-19 could decimate the world economy especially in the short to medium term. South Africa was no different, local markets being whipped around by global market forces, with only a short but welcome respite after the February Budget speech lifting investor sentiment in the short term.

South Africans were once again plagued by heavy loadshedding during February, with most of the month being categorized by stage-2 which saw most areas experiencing up to 4-hours of blackouts per day. The effect of loadshedding is twofold, it limits the productive capability in both the primary and manufacturing sectors and negatively affects the business sentiment across the entire economy. The full economic effect of the latest spell of loadshedding remains to be seen, but it is bound to be substantially negative.

In early February, AngloGold Ashanti announced its intentions to exit the South African gold market in order to focus its efforts in the Americas. By February 21st it was announced that the remainder of AngloGold's South African operations were to be sold to Harmony Gold for a sum totaling \$300 million. The sale encompasses Mponeng, the deepest gold mine in the world as well as many of AngloGold's ancillary operations that are focused solely in South Africa.

After a lengthy delay due to South Africa's usual eclectic parliamentary sessions, President Ramaphosa delivered a State of the Nation Address (SONA) that, while touching on all the key issues needing attention in the country, delivered little in the way of concrete plans going forward. The main takeaways from the SONA were the Government's commitment to procuring energy from sources besides Eskom's generating capacity, the development of a R30bn sovereign wealth fund, and a strong focus on curbing youth unemployment.

On 26 February, finance minister Tito Mboweni delivered the much-anticipated annual February budget statement, in which he outlined many of the problems plaguing the country's fiscus. While the expectation was for him to announce increased taxes for consumers and possibly a VAT rate increase to boost the governments tax revenue, he surprised to the upside by announcing minor tax relief in income tax and no VAT increases. Instead is focus being on the spending side of the budget and he in particular made commitments to decrease the public sector wage bill by R160bn over the next three years. Along with reallocations of

existing budgets this budget seemed to be the most levelheaded. His comments were met by local stocks surging post the speech, but potential labour union unrest over the public sector wage bill decrease soon had the opposite effect. At a Goldman Sachs function a week later The Minister explained that he expected the union response and that he was confident as was the President that by June when this budget needs final approval the unions would be onboard. We wish him the best.

What was sorely lacking from the both the SONA and the Budget speech where concrete initiatives to boost local business confidence. With the RMB/BER business confidence in the first quarter of 2020 at 18/100, its lowest level in 21 years, it should be the number one priority from government to ensure business wants to invest the close to R1 trillion (R1000 billion) of cash on their balance sheets. Private business growth is the only real source of job creation especially as the government sector needs to shrink and is funded by taxpayers.

Global Market Overview

Global markets were extremely volatile during February, being swayed almost exclusively by fears over the impact that COVID-19 would have on the world economy and the response that global governments and monetary authorities would take to contain its economic impact. Risk assets started the month strongly on the hope of early action by monetary authorities, but as the infection rate increased, a worldwide selloff took hold of the markets, sending the S&P 500 down to the biggest weekly drop since the financial crisis. Monetary authorities responded by cutting rates by China, US and early in March UK, sending global bond prices higher as yields dropped to record levels. The only positive performing asset classes in February were global bonds & cash.

At the start of February, there were just above 900 confirmed deaths from COVID-19, at the time of writing there are over 4700 deaths and over 120000 infections recorded. The spread of the virus has indeed been high-paced during the month, and while the mortality rate is now 3.4%, the worry remains how easily the virus seems to travel across borders, this is likely because most people infected only show minor symptoms and are thus allowed to travel as they do not appear particularly ill. After Italy closed its borders in early March the US has now closed its orders to all non-US citizens travelling from Europe.

Both Chinese and Australian officials have indicated that the economic effect of the virus will be drastic, this has led the Chinese to cut rates during the month, while the Australian central bank cut rates in early March. At the time of writing the US Fed had initiated an emergency 50 bps rate cut in an attempt to curb the economic effect of taking hold. The market widely expected major central banks to take a strongly accommodative stance, thus global bonds rallied along with gold, US treasuries and other traditional safe haven assets.

Italy has thus far been the hotbed for infection in Europe with over 12460 confirmed cases and more than 827 deaths, this has taken a severe toll on the already struggling nation, with many countries issuing travel bans to the tourism heavy region. Italy's high infection rate has been a reminder that even developed nations fall prey to a global outbreak and has ensured that other countries prepare their response to a similar outbreak.

The democratic primary election has started off with Bernie Sanders taking a surprise lead. The leftist candidate has found an interesting balance between traditional democratic values and the anti-establishment sentiment that has spread over the US. While it is unlikely that a left-wing nomination will take place in the presence of two strong centrist candidates in Joe Biden and Michael Bloomberg, it does demonstrate that the level of trust in the current system in the US is dwindling. Post month end on Super Tuesday Joe Biden came back swinging now has the Democratic Party nomination lead and most polls showing a even chance of either Biden or Trump ending up in the oval office.



The democratic nomination will have a significant effect on the US markets, most profoundly in the form of corporate and income tax levels. If a centrist is nominated, it is likely that taxes will remain at current levels or rise modestly, while the leftist wing of the democratic party is dead set on tax increases to fund projects like nationalized healthcare and the like. While the general consensus is that President Trump will be reelected on the back of a divided Democratic camp, the nomination alone is likely to have a market swinging effect.

Investors (private and professional) behaviour in times of stress such as we are experiencing currently is critical to their long-term financial investment success. At this time while almost all of our investors are very protected from big negative market moves locally and somewhat less so offshore where most of the growth assets are based. We do not believe in changing strategies to suit the mood of the markets. Our focus on capital protection first, real returns second and long-term target returns last, has not and will not change. We have in the past week spoken with all of our portfolio managers and are comfortable that they are navigating this period as we expect them to. We have added an additional income and bond strategy into our local portfolio to provide extra income yields to further enhance the predictability of positive real returns for the remainder of the year.

Asset Class Performances in ZAR

As at 29 th February 2020	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	(3.69)	1.95	15.77	13.82	12.50
Global Property - FTSE EPRA Nareit DR	(3.75)	4.37	16.34	11.89	10.85
Global Bond - JPM GBI Global Traded	6.16	15.88	21.67	11.21	9.34
Global Cash - ICE LIBOR 1 Month	5.03	12.83	14.37	8.32	7.53
SA Equity - FTSE/JSE All Share	(8.99)	(10.53)	(5.71)	3.15	2.21
SA Property - FTSE/JSE SA Listed Prop	(15.69)	(18.26)	(19.09)	(10.36)	(4.76)
SA Bond - Beassa ALBI	(0.04)	1.14	8.91	9.07	7.25
SA Cash - STeFI Call Deposit	0.47	1.01	6.59	6.67	6.57

Asset Class Performances in USD

As at 29 th February 2020	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	(8.17)	(9.37)	3.47	7.03	5.95
Global Property - FTSE EPRA Nareit DR	(8.23)	(7.22)	3.98	5.21	4.39
Global Bond - JPM GBI Global Traded	1.22	3.01	8.74	4.58	2.97
Global Cash - ICE LIBOR 1 Month	0.14	0.29	2.22	1.85	1.26
SA Equity - FTSE/JSE All Share	(13.22)	(20.47)	(15.72)	(3.01)	(3.74)
SA Property - FTSE/JSE SA Listed Prop	(19.61)	(27.35)	(27.68)	(15.71)	(10.31)
SA Bond - Beassa ALBI	(4.69)	(10.10)	(2.66)	2.56	1.00
SA Cash - STeFI Call Deposit	(4.20)	(10.21)	(4.74)	0.30	0.36