April 2020 Market Commentary

SA Market Overview

April 2020 is a month that will go down in our history as South Africans spent the entire month under a legally enforced lockdown which prohibited people from leaving their residences except for essential services such as medical care or grocery shopping. The lockdown came into effect on 27 March and was initially tabled to end on 17 April, but in an attempt to prevent a “second wave” of infections, the South African government opted for a two-week long extension to the regulation. Further to the extension was the introduction of a 5-stage alert system with stage-1 effectively being a return to normal life, and stage-5 a full lockdown as experienced during April. The alert system came into effect on 1 May 2020 with alert level 4 being the initial point, this allowed people in certain sectors such as construction and mining to return to work in a limited fashion and under strict guidelines, it also allowed all people to exercise under strict regulations between the hours of 6-9am daily. In the local hospitality industry restaurants are now allowed to open for takeaways and deliveries only, which has been widely welcomed.

The pressures of governing a young democracy in the midst of such a global healthcare and economic crisis has highlighted some deep-rooted factions within the ruling ANC. The divided camp has circulated conflicting comments from the very start of the crisis, yet the most notable of the recent conflicting reports came when President Ramaphosa announced that tobacco products would be permitted to be sold during level-4 alert level, after which minister of cooperative governance Dlamini Zuma announced that it would not be so, contradicting the President’s earlier statement. All in all, the crisis has brought to the fore the internal power struggles in the ruling party, even though political instability is the last thing needed at the moment. Our global research partner BCA puts South Africa under their top three countries that could experience significant social unrest due to the COVID-19 pandemic along with Turkey and Venezuela.

Before we go on to the stimulus efforts by the SARB and Government, we would like to highlight some of the bigger enterprises that have already felt the brunt of the financial crisis caused by COVID-19. Edcon (Edgars and Jet) was already struggling before the lockdown period that then effectively shut off all their sources of revenue for 5 weeks, Edcon has announced that it has filed for business rescue as a result. This was followed by Comair, which operates Kulula and British Airways domestically announcing at the start of May they were exploring a similar process as they do not see any flight travel before October 2020. These mark the first big corporate companies that have effectively failed in their current form because of the pandemic lockdown response. We expect many similar announcements in the coming months. The Land and Agriculture Development of South Africa (Landbank) has defaulted on R738 million of debt repayment, this worried investors, as it was thought that this would cause a cross default on payments of up to R50 billion due at the end of April but the SOE managed to gain access to liquidity to cover the majority of the payments and no cross default was triggered as the R738 million did not breach any triggers.

Concerns remain over other SOE's with SAA on its knees and with no financial aid available from the state this could mean the eventual end has arrived. As you would expect the Unions are doing everything to delay this for the benefits of their members and staff in general. ESKOM remains in the same space, insufficient income, declining demand and poorly maintained assets with too much debt. It is to big to fail however Covid-19 is further highlighting this SOE's need for deep and fundamental change.

All hope is not lost however, in the midst of all this negativity, a SA government bond auction last week attracted record demand, with the issuance of R4.53 billion being oversubscribed more than four times over. The auction comes in the midst of the pandemic placing strain on the country's fiscus and the recent downgrade by Moody's requiring large outflows by investors with investment grade mandates. This demand was likely caused by the high yields on offer when compared to most emerging economies that face similar or even bigger risks than SA.

During April, President Ramaphosa announced a historic relief package to aid in limiting the economic and social impact of the pandemic. The stimulus package totals R500 billion and equates to roughly 10% of GDP. While the fiscus is already in dire straits, Treasury must be commended for the structure of the aid package, with only about R170 billion expected to directly affect the fiscus, amounting to 3.4% of GDP. While a far cry from ideal, we should accept that these are necessary actions and we can but hope that government finances will be better managed going forward, to lighten the load on future generations who will be the ones paying for the current raised expenditure.

Through all of this activity all major asset classes recovered during the month. Equities +13.98%; Bonds +3.92% and Property +7%.

Three of the eight major JSE sectors recorded positive monthly returns in April, these were: Resources (+15.5%); Consumer goods (+9.2%); and Technology (+18.3%). Negative monthly returns were recorded by: Industrials (-11.6%); Healthcare (-2.4%); Consumer services (-3.3%); Telecommunications (-2.6%); and Financials (-11.0%).

The Rand weakened but at a slower pace -1.8% and now -22.8% YTD by month end. Most commentators see some Rand recovery in the coming months and years with purchasing power parity suggesting R13/$ could be achieved. Our interpretation is a longer recovery period, with high volatility, linked to a sustained "risk on" global investment mood and the SA Government making strong calls on SOE's while providing the SA business community with enough confidence to ensure private sector investment happens quickly.

Global Market Overview

In April global markets began to speculate the effect of the fiscal and monetary lockdown measures on the global economy and responded very positively in April. We are however concerned that worse news is likely to come in future economic data, as most data points have a significant lag due to collection and processing. This may result in increased levels of volatility until all known factors have been priced in.

The oil market experienced its most significant shock in history as oversupply and diminished demand combined to push oil prices (WTI) momentarily negative in April. A market-share 'war' spearheaded by the Kingdom of Saudi Arabia (KSA) and Russia caused a flooded marketplace putting downward pressure on the price of oil, this combined with the lack of demand for oil due to global limitation of movement and business activity pushed prices to record lows. The spiral culminated in the price of oil reducing to minus $40 per barrel. US stockpiles were already nearing capacity and buyers could not take delivery of physical barrels. The KSA, Russia and the USA agreed to cut production significantly and the price of oil normalized at lower but positive levels by early May.

China and specifically in Wuhan, the initial epicenter for the COVID -19 virus began to relax lockdown restrictions, allowing businesses to return to operations and even limited travel outside the province. This was the first major epicenter to return to a semblance of normalcy. Later in the month new data was released showing the decimation of China's Q1 GDP print, a contraction by 6.8% annualized. This GDP number is believed to be only a precursor for even worse performance during the second quarter as officials scramble to kickstart idle economies across the globe. This has resulted in the negative annual GDP growth in China for the first time since the end of the Moa dynasty in 1973.

Another sign of the immense impact of the virus on the global economy has come in the form of job losses, most notably in the US with the 4-week average jobless claims averaging over 5 million for the past three weeks. This was echoed in early May by the ADP employment numbers, which showed that roughly 20.2 Million Americans had lost their jobs during April. No doubt this job loss situation will be even more pronounced in most emerging economies in the months to come resulting in significant contraction.

While the US job market suffered, the Federal Reserve Bank and other global central banks have made great strides in order to keep financial markets operating smoothly. Dollar liquidity was the main focus for financial markets during the month, with the Fed expanding their dollar swap capacity to more than 15 central banks. This ensured that dollars were available and that financial markets regained some semblance of rationality. Whether the stimulus and money supply will be enough to sustain the recovery from March lows still remains to be seen, as second round effects from the virus are only becoming fully apparent as time passes.

Markets performed well in April putting a healthy dent in the YTD negative numbers. The following index performances in USD terms give insight into various submarkets:

	APRIL	YTD
S&P 500	*12.82*	*(9.29)*
EuroSTOXX 50	*6.42*	*(21.65)*
FTSE 100	*5.69*	*(24.66)*
DAX	*9.12*	*(20.01)*
Nikkei	*5.40*	*(12.16)*
S&P ASX	*15.97*	*(22.26)*
MSCI EM	*7.02*	*(12.75)*

On the currency front the US Dollar was still the safe haven of choice with the currency gaining ground on Euro and GBP but less vs. Yen.

A key question an equity investor should be asking is: Are the market prices (with Forward PE's of between 13-China and 22-USA) reflecting the new normal of what is to come? Our view is it is very unlikely that enough is known to price in near perfection as in the USA.

Global Equity Valuations

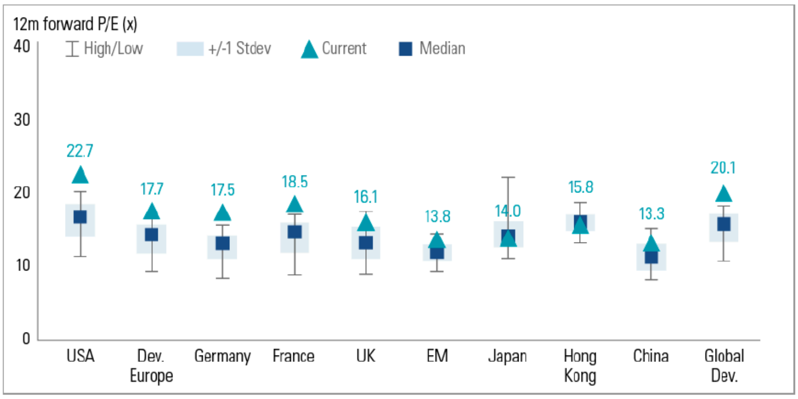

Chart Source: GSAM and Bloomberg as of close of trading on April 30, 2020. Chart data shows next 12 month P/E ratio from March 2010 to the current period. 12m forward P/E(x) refers to price-to-earnings ratio for the next 12 months, which is a valuation measure applied to respective broad equity indices. Please see additional disclosures at the end of this presentation.

Asset Class Performances in ZAR

As at 30th April 2020	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	14.22	13.21	20.70	15.86	13.95
Global Property - FTSE EPRA Nareit DR	9.96	0.48	7.17	9.97	10.07
Global Bond - JPM GBI Global Traded	3.87	36.78	39.66	16.10	12.46
Global Cash - ICE LIBOR 1 Month	2.94	32.03	30.71	13.22	10.38
SA Equity - FTSE/JSE All Share	13.98	(10.39)	(10.78)	1.08	1.58
SA Property - FTSE/JSE SA Listed Prop	7.00	(44.52)	(45.98)	(21.38)	(12.33)
SA Bond - Beassa ALBI	3.92	(5.14)	0.06	6.13	6.09
SA Cash - STeFI Call Deposit	0.44	1.99	6.46	6.61	6.58

Asset Class Performances in USD

As at 30th April 2020	MTD	YTD	1 Year	3 Years*	5 Years*
Global Equity – MSCI ACWI	11.08	(13.80)	(5.78)	4.26	4.58
Global Property - FTSE EPRA Nareit DR	6.94	(23.49)	(16.34)	(1.04)	1.01
Global Bond - JPM GBI Global Traded	1.01	4.14	9.02	4.48	3.21
Global Cash - ICE LIBOR 1 Month	0.11	0.53	2.03	1.89	1.30
SA Equity - FTSE/JSE All Share	10.85	(31.77)	(30.35)	(9.04)	(6.78)
SA Property - FTSE/JSE SA Listed Prop	4.06	(57.76)	(57.83)	(29.25)	(19.54)
SA Bond - Beassa ALBI	1.06	(27.77)	(21.89)	(4.50)	(2.63)
SA Cash - STeFI Call Deposit	(2.33)	(22.34)	(16.89)	(4.06)	(2.19)