Market update

Prepared by GTC Investment Analytics

11 March 2020

formerly Grant Thornton Capital

a GTC @Grant Thornton, The Wanderers Office Park, 52 Corlett Drive, Illovo, 2196
p P O Box 55118, Illovo, 2116
t +27 (0) 10 597 6800
f +27 (0) 10 597 6801
w www.gtc.co.za
GTC (Pty) Ltd.
reg. no. 1996/001488/07
directors: G.K. Mockler, F. Dildar
An Authorised Financial Services Provider
FSP no. 731
GTC is nationally represented in Johannesburg, Cape Town and Durban.

Scope

This communication provides GTC's clients with insight into recent investment market developments in order to continue to assist them in making informed and appropriate investment decisions.

What has happened?

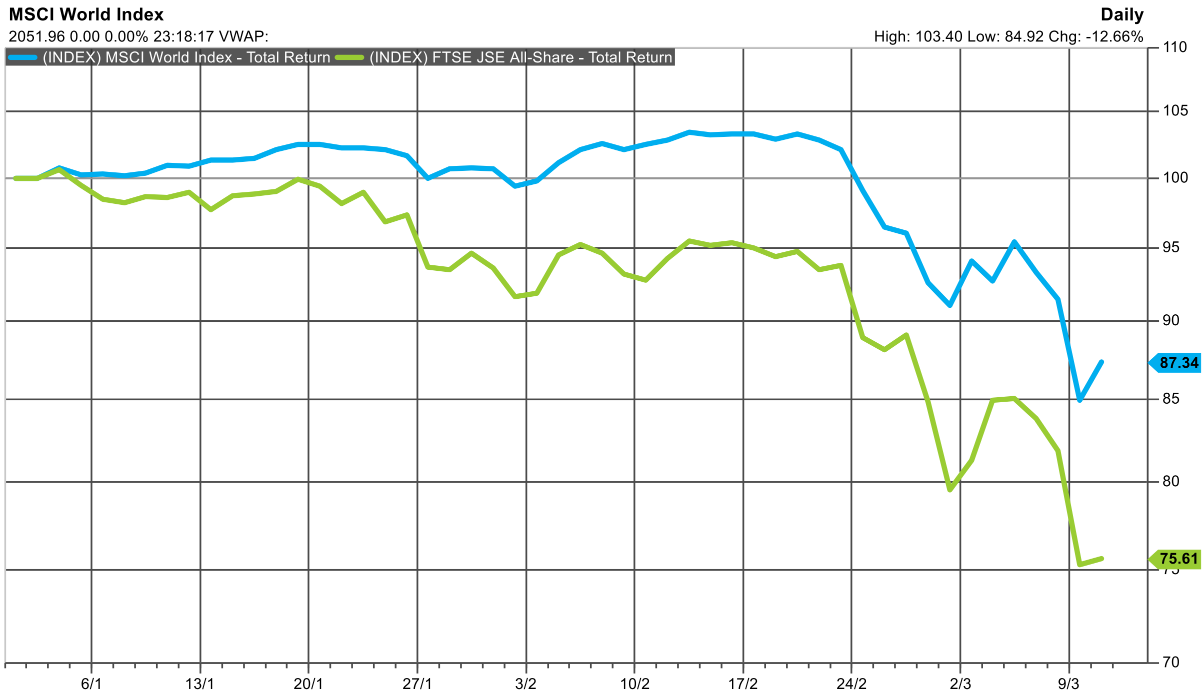
A combination of the economic fallout from the spread of the Coronavirus and a fight amongst two of the world's largest oil producing countries has created a fear fuelled environment, causing investors around the globe to rush to sell any 'risky' assets (think shares, emerging market assets, currencies) and buy 'safe haven' assets such as US government bonds and gold.

The reaction to the spread of the Coronavirus (Covid-19) - which includes relatively extreme measures such as Italy quarantining almost their entire country and banning any public gatherings - has led to the halt in both the supply and demand for goods and services in various industries across the affected regions and their trading partners. The severity and duration of this impact is impossible to predict at this stage and it is this uncertainty that is driving investor fear. The timing of the Coronavirus outbreak - when global markets were already slowing down on concerns of economic recession - further served to heighten fears.

An additional contributor to the latest wave of selling, was an impasse between Russia and Saudi Arabia and other OPEC members, which will see the removal of restrictions on the production of oil by the end of the month. The expected significant increase in supply, as well as the reduced demand - as a result of the Coronavirus fallout described above - led to a plummet in oil prices on Monday and further fear and shock amongst investors, who now also have to digest the as yet unknown secondary impacts of a collapse in profits of oil producers and related businesses.

What has the impact been on the markets?

While markets were relatively calm heading into the middle of February, due to a lack of understanding on the consequences of the virus, recent weeks have seen significant sell offs. As the graph below reveals world equity markets (MSCI World Index – blue) and local equities (All Share - green) sold off sharply on a synchronised basis.



Equity Market performance in US Dollars (Source: Factset, GTC Investment Analytics)

Other asset classes reveal a mostly grim picture over the year to date (YTD) for 2020.

Index – 09 March 2020	YTD in %
Local Shares (All Share)	-14.12
Local Listed property (J253)	-18.10
Local Bonds (ALBI)	0.32
Global Equities in US Dollars (MSCI World)	-15.08
Global Bonds in US Dollars (Citigroup WGBI)	7.46
Gold	9.88
Oil	-46.37
The Rand versus the US Dollar	-12.38

The fall in the Rand (12.38%) will go some way to absorbing the losses experienced by South African investors in Rand terms.

What is likely to happen going forward?

Despite the ease of access to information from anywhere around the globe on an almost instantaneous basis, the future spread and severity of the Coronavirus is difficult to predict. What is becoming clear is that it is far more serious in terms of its contagiousness and impact on the medical infrastructure around the globe than first thought. The impact on the economy, going forward, is equally unpredictable given that it is dependent on the duration and secondary consequences (business closures etc.) of the Coronavirus. One silver lining may be that China, the source of the virus in December, appears to be coming out of the worst of the impact and is rapidly returning to full economic capacity.

Further good news is that the global economic and political authorities have already begun to implement a range of measures primarily designed to mitigate fear, restore confidence and address some of the issues directly, where possible. These include emergency interest rate and tax cuts from the United States and others, as well as the waiving of medical cost implications for individuals seeking help. These positive measures have contributed to a small rebound in global assets prices, including our own stock market and currency.

Future developments related to the dispute amongst oil producers are once again unclear in the short term, but in the medium term there is a relatively high probability that a resolution will be found which should provide some support to the oil price. While lower oil prices are welcomed by consumers globally, extreme levels (either high or low) can have catastrophic consequences on the global economy.

What is GTC doing?

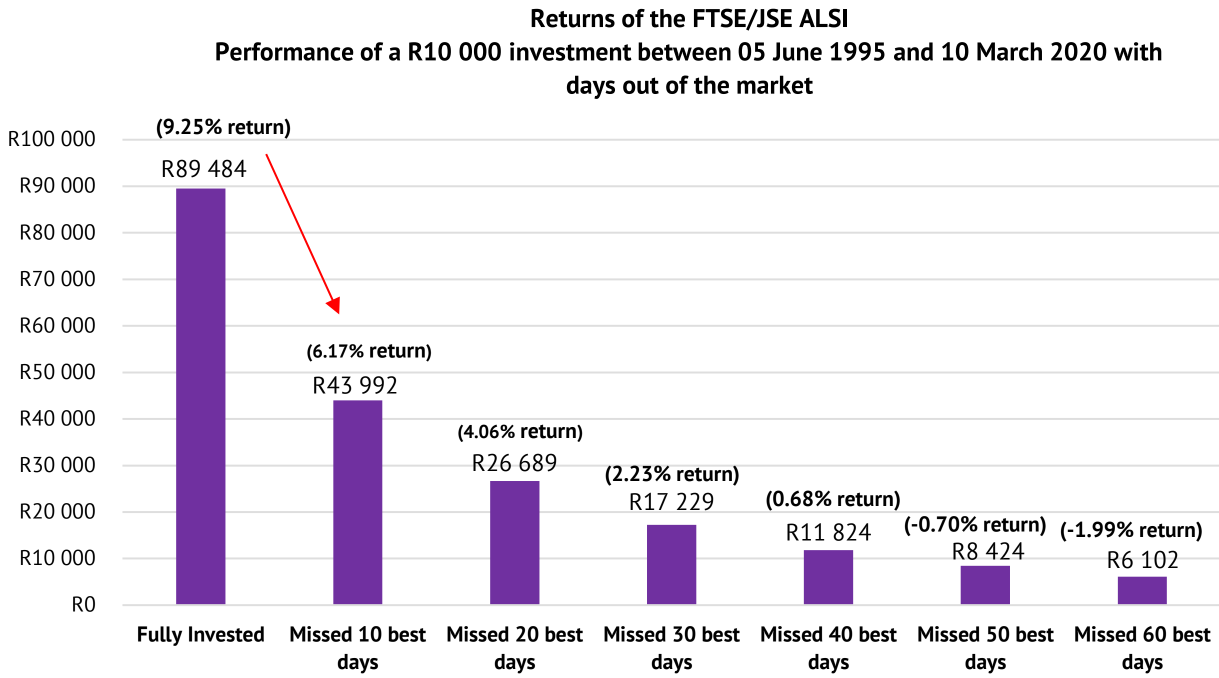
The principles, processes and governance applied by GTC in the management of its clients' assets have been designed to cater for all conceivable market environments, including periods of turmoil such as this. Whilst the particulars of these developments are obviously unique, the market consequences are not and in fact are, as yet still not anywhere close to the severity of the sell-off experienced in 2008 during the financial crisis. GTC is well versed in handling market sell offs - clients invested with us over the course of our history will recall the limited losses their portfolios experienced when compared to the investment markets. 2008 was a good example of our risk mitigation capabilities.

We are currently working with our appointed asset managers, ensuring that the portfolios continue to weather these conditions. In addition, capability and expertise acquired over the past several years affords us the opportunity to implement additional risk mitigation hedging strategies on local and offshore equities, as well as on our currency. These strategies will go a long way to reducing the drops (volatility) in investment returns over this period.

Finally, our understanding of both the nature of asset class returns in volatile markets and over the long term - as well as our awareness of our clients' investment time horizons - means that the portfolios remain well positioned to deliver into the future.

What should investors do?

As per previous communications, our message to investors remains the same, and that is to avoid making investment decisions based on short term market movements. More importantly, investors should avoid acting out of fear by trying to time the market. Typically, in periods of uncertainty and fear, investors are tempted to move to less risky portfolios. We felt it prudent to revisit the analysis below - which clearly illustrates that this decision almost always leads to a lower investment value over long periods of time - due to the investors' inability to know when share markets are going to go up or down.



The above chart is based on the South African share market (the FTSE/JSE ALSI). It illustrates the risk and impact of timing investments into, or out of, the share market. If an investor missed only 10 of the best trading days over an approximate 25-year period (i.e. 9039 days), that investor would effectively earn almost half the return achievable (R43 992 versus R89 484) by remaining fully invested even during negative markets. Furthermore, research by JP Morgan in the United States found that on average 6 of the best 10 trading days occurred shortly after the 10 worst trading days! These facts explain why trying to "time" the market almost always results in failure.

Given the advantages of remaining invested, as evidenced above, investors should instead ensure they are invested according to their risk tolerance and investment objective, which should not have been impacted by market developments. In most cases, no action should be required from investors.

Conclusion

The review and analysis summarised in this document supports our recommendation that clients continue to maintain investing in line with their originally identified risk and return objectives. If your circumstances have changed, or if you feel it may be time to revisit your risk and return objectives, please contact your GTC consultant.

Clive Eggers
Head - Investment Analytics