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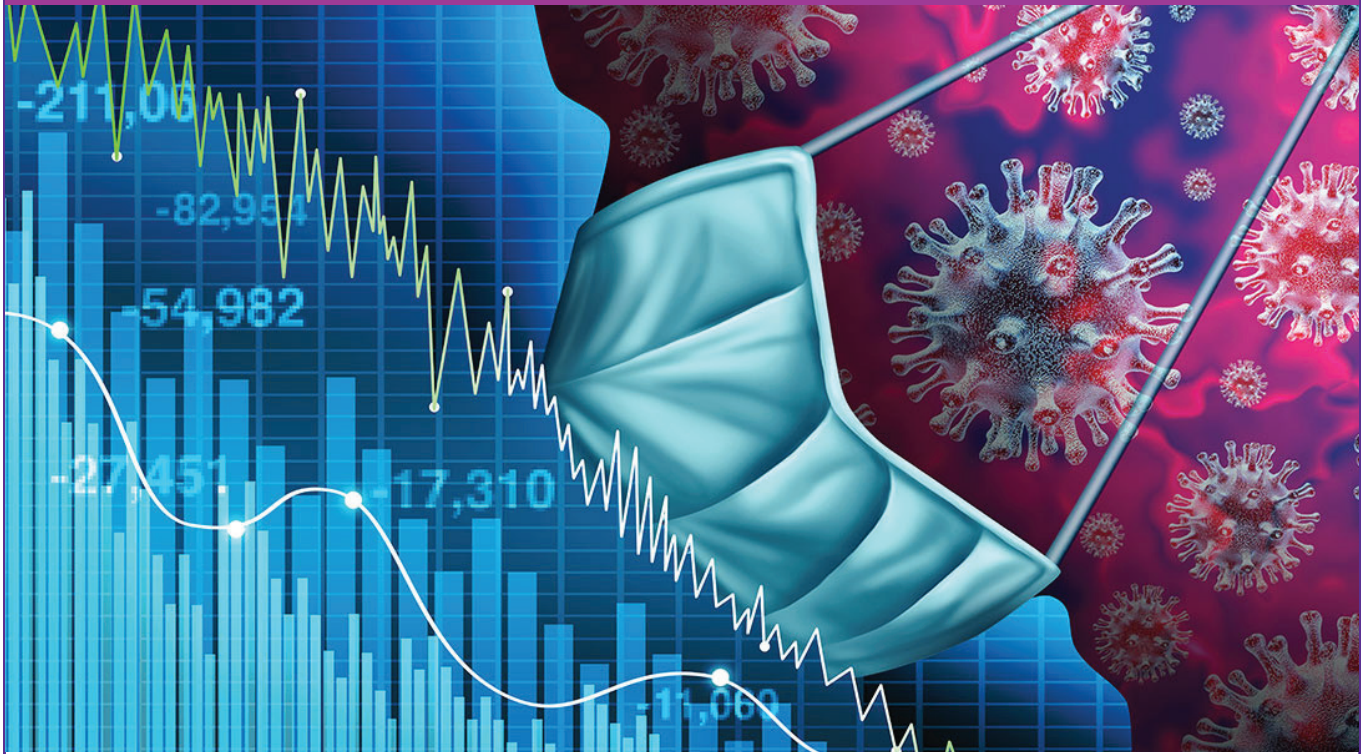
Trendline

First quarter 2020



Outlook

The economic events of the first quarter of 2020 have been both unprecedented as well as largely unexpected. No one could have predicted the course of events that were to follow when growth in the entire global economy was brought to a sudden halt as many countries went into total lockdown.

The magnitude of the downturn in equities is best illustrated by the MSCI World Index decline of -21.1% and the World Emerging Market Index decline of -23.6% for the quarter.

As the coronavirus gathered momentum the rapidity of its spread took developed markets by surprise resulting in extreme volatility as investors scurried into safe -haven assets. This resulted in sharp declines in government bond yields as well as strong demand for gold. In addition, the Dollar strengthened providing additional headwinds for emerging markets. Added to the situation was a sharp decline in the oil price driven by a marked fall in global demand as well as the confrontation between OPEC and Russian producers.

Having recently experienced the fastest market crash on record it's no surprise that the Volatility Index (VIX) recently closed at its highest ever level. On the 16th March the VIX closed at 82.69 just exceeding the peak reached during the financial crisis in 2008. During the 1998 stock market crash and through the tech bubble in the early 2000's the VIX only reached the mid-40's.

Global - A world crisis!

U.S

U.S. equities were hammered across the board as the coronavirus spread bringing in its wake panic selling. In line with the spread of the pandemic jobless numbers rocketed rising to over 3 million by the end of March from the previous number in the 200,000's.

This number is set to rise considerably over the coming weeks. In order to counter this catastrophe, the Federal Reserve immediately announced unlimited quantative easing in order to inject liquidity into the economy. Earlier in March the Federal Reserve had cut interest rates twice to provide stimulation to a faltering economy. U.S. interest rates currently range from 0-0.25%.

The sheer scale of the crisis required additional government intervention which soon followed with the senate passing a $2 trillion stimulus package which was aimed at assisting across all aspects of the economy. Market wise energy stocks were the hardest hit followed by financials and industrials while tech and healthcare stocks weathered the storm a little better. The S&P 500 declined -19.6%.

Eurozone

With the Eurozone being the new epicentre of the coronavirus pandemic equities experienced sharp declines with Italy and Spain being the worst affected. Eurozone growth for Q4 2019 came in at a paltry 0.1% with Germany registering zero growth.

The Eurozone economy seems set for a sharp downturn. Economic data to hand clearly demonstrates this fact with the Eurozone PMI for March declining from a positive 51.6 in February to a markedly reduced contraction number of 31.4 in March. To counter the serious economic implications of the pandemic the European Central Bank announced a bond repurchasing programme to the value of Euro 750 billion. Banks have also been encouraged to suspend share buybacks and dividend payments in order to strengthen their balance sheets and so provide aid to non-performing loans.

U.K

In the U.K. Brexit and the economic implications of the deal continued to dominate debate during the early part of the quarter until being overtaken by the spread of the coronavirus. Concerns around the stability of the U.K. monetary system saw a dramatic sell-off across the board which even included government bonds.

The FTSE declined -26.0%. This resulted in sterling trading at decade lows against the Dollar as investors moved to cash. Once again central bank intervention resulted in the Bank of England materially reducing interest rates by 65 bps to 0.10%. Simultaneously the government introduced a series of measures designed to lessen the impact of the pandemic by aiding SME's as well as those suddenly finding themselves unemployed.

Japan

The Japanese market experienced somewhat of a roller coaster ride over the quarter. Sharp falls in early March were followed by a recovery, but in line with global markets the Nikkei ended the month returning a negative -17.5%. The performance of the Yen as a safe- haven investment did not follow expectations with the currency ending the quarter slightly weaker.

The Coronavirus pandemic has not followed the usual pattern in Japan despite calls for further monetary and fiscal relief. Perhaps the greatest impact of the pandemic on Japan thus far has been the postponement of the Olympic Games until July 2021. This will undoubtedly have some impact on GDP.

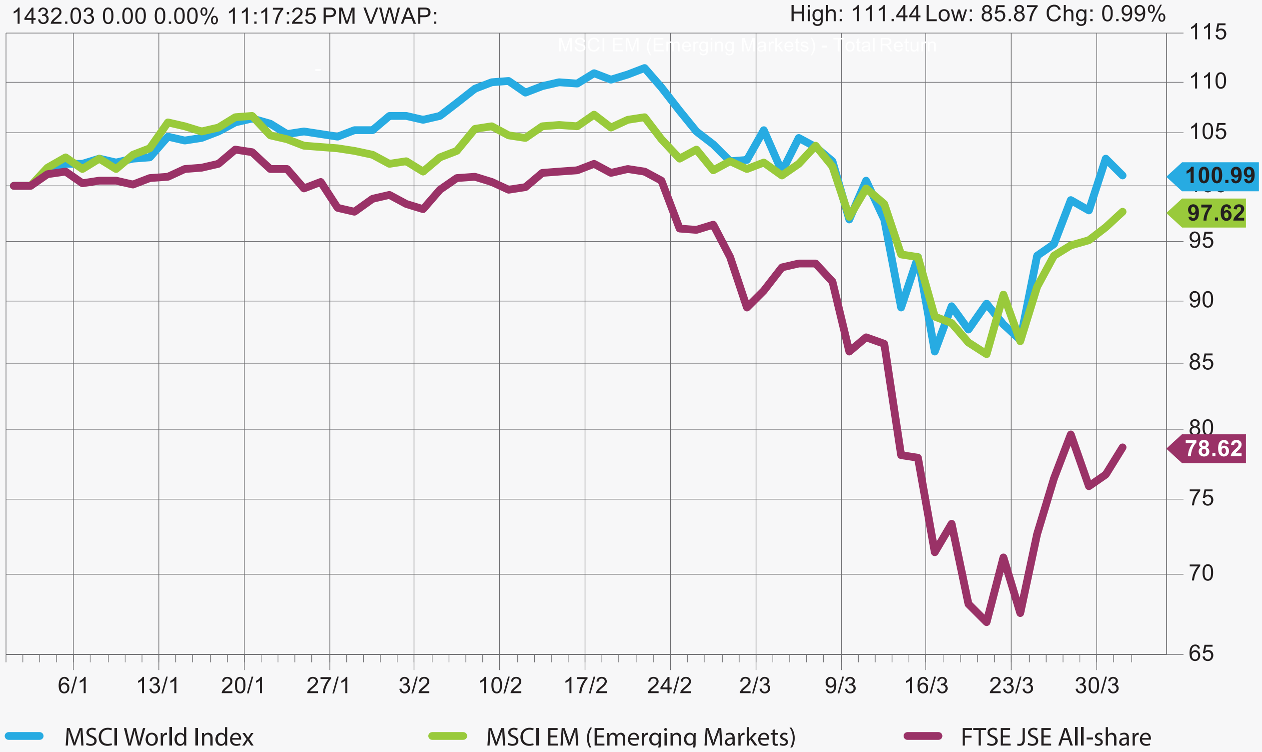
Emerging Markets

In line with most markets Asian markets declined as the weaker outlook for global trade and economic growth weighed on investor sentiment.

However, China and Hong Kong, despite delivering negative returns, bucked the trend somewhat outperforming the MSCI Asia ex-Japan Index. China being the first country to experience the coronavirus pandemic had imposed strict lockdown procedures on the population and this approach seemed to be providing the first evidence of a return to normal economic activity.

The Chinese authorities have announced a series of fiscal and monetary measures to aid a return to normal economic activity. Policymakers have responded with several supportive measures. The People's Bank of China cut the loan prime rate by 10 basis points, and provincial governments waived VAT, social contributions and rent to ease the financial pain, particularly for smaller businesses. But hopes of a quick and sharp recovery in Q2 could be premature given the slow recovery in production and the sharp decline in global demand.

YTD global equity market performance



ZAR denominated
Source: Factset

Market index - March 2020 (%)	3M	1YR	3YR	5YR	7YR	10YR
Local Equity (SWIX)	-23.28	-20.88	-4.56	-1.94	4.14	7.64
Local Listed Property	-48.15	-47.91	-23.00	-13.50	-5.11	2.82
Local Money Market	1.70	7.24	7.33	7.23	6.78	6.52
Local Bonds	-8.72	-2.99	5.27	5.18	5.51	7.40
Global Developed Equity in USD	-21.05	-10.39	1.92	3.25	5.77	6.57
Global Emerging Equity in USD	-23.60	-17.69	-1.62	-0.37	-0.40	0.68
Global Bonds in USD	2.00	6.17	4.27	2.96	1.48	2.19
Gold in USD	4.52	22.24	7.71	5.41	-0.61	2.99
Oil in USD	-56.26	-52.65	-14.51	-15.39	-19.61	-11.37
Rand vs. USD	-21.70	-19.25	-9.11	-7.47	-9.08	-8.50

The above market index returns are all gross of fees.

Local - Vasbyt!

The JSE experienced its worst quarter since September 1998 as fear around the rapid spread of the coronavirus wreaked havoc in global markets. While recent stimulus and relief measures taken by central banks to support the financial markets have aided global equities, domestically the JSE declined -23.3% in Q1 2020 the worst in nearly 20 years. The decline of -12.1% in March is its one-month biggest drop since the start of the financial crisis in 2008. The sectors delivering the worst performance were financials which were down -39.7% and listed property which was down -48.2%. The best performing sector was industrials which was down -8.9%.

President Cyril Ramaphosa made the dramatic announcement of a three-week national shutdown as part of wide-ranging interventions to combat the spread of the Covid-19 virus.

The most notable measure is the prohibition of South Africans from leaving their homes unless for essential purposes. The army will be deployed to ensure citizens are obeying the new interventions.

A total of R30 billion has been allocated to a special National Disaster Benefit Fund, which will pay Unemployment Insurance Fund benefits for up to three months to qualifying workers whose income has been impacted by the coronavirus pandemic.
The monthly payment will be up to R3 500.

A government Debt Relief Fund will be set up and is aimed at providing relief on existing debts and repayments, to assist SMMEs during the period of the Covid-19 State of Disaster. The private sector has reacted to the current state of lockdown in the local economy by offering monetary assistance. Naspers will donate R500 million to the Solidarity Fund, but even more importantly, will purchase R1 billion worth of medical and personal protective equipment in China and deliver it to the country.

This in addition to a similar donation by Chinese mogul Jack Ma, and assistance by Patrice Motsepe (R1 billion), Johann Rupert (R1 billion) and Nicky and Jonathan Oppenheimer (R1 billion) and Mary Oppenheimer (R1billion).

Moody's announced the downgrade of SA's sovereign rating to junk status from Baa-3 to Ba-1 and has maintained its negative outlook to reflect downside risks to SA's growth and fiscal metrics. The rating agency expects growth in economic activity to decline by -2.5% in 2020 before recovering to 1.1% in 2021.

The growth downgrade reflects the negative effects of COVID-19 and long-standing structural constraints.

Moody's warned that the size of government support in reaction to the virus outbreak was very modest and would be limited in its ability to counter the reduction in the country's productive capacities during the three-week lockdown. National Treasury acknowledged that the move would raise government's borrowing costs, which would result in a decrease in spending on much-needed social and economic programmes.

Employment in SA's non-agricultural formal sector grew by 16 000 between September and December 2019, Statistics SA announced in its latest Quarterly Employment Statistics (QES) bulletin. While full-time employment decreased by 2 000 over the three months to end 2019, part-time employment increased by 18 000.

South Africa recorded its biggest trade surplus in 14 months in February as exports to Europe increased. The trade balance swung to a surplus of R14.15 billion from a revised deficit of R2.72 billion in January, the South African Revenue Service said. The trade surplus could help narrow the shortfall on South Africa's current account and provide some support for the Rand.

The demand for South African bonds at the government's auction yesterday was at a record high, according to a Business Day report. Bids exceeding what government bonds were on offer by more than four times.

As highlighted in our earlier communications there are a few things to bear in mind in the current market uncertainty and extreme volatility.

Firstly, this is certainly not the time to panic. Trying to make portfolio changes in a time of hyper-volatility is a sure bet to nothing that you will get the timing wrong. GTC has structured your portfolio to meet your specific investment goals and should any changes be warranted the investment team will take the necessary action as and when markets have returned to some form of sanity.

The road ahead is uncertain, but all events have a propensity to mean revert and surely given time we will look back at these events as being just a once off episode in a lifetime. Stay the course, your patience will be rewarded.

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