Market Update

April 2020

Overview

Following a disastrous month in March global markets rebounded strongly in April as some countries experienced a decline in new Covid-19 infection rates and were planning a gradual re-opening of their economies. Governments and central banks were quick to respond to the impending economic crisis and introduced significant stimulus measures to counter the mayhem caused by the economic shutdown.

Market volatility declined with the MSCI World Index returning 10.9% for the month and outperforming the MSCI Emerging Market Index which returned 9.2%, albeit from a low base.

In the United States the market rebound reclaimed almost 60% of the March decline with the S&P 500 returning 12.8%. Fixed interest markets rallied as central banks committed to purchase additional quantities of government and corporate bonds.

Eurozone equities improved as some countries began to ease up on lockdown restrictions and a gradual business re-opening commenced. Information technologies and healthcare were sectors that performed best.

In line with other global markets U.K. equities improved over the period with the FTSE All Share returning 4.9%. Indications were that the pandemic peak had passed, and preparations were being made to ease lockdown measures.

Japanese equities gained as the global picture improved, but market gains were abruptly halted as a gradual increase in Covid-19 cases resulted in a state of emergency being declared.

Emerging market equities advanced as the Chinese economy began a gradual re-opening and the People's Bank of China increased its monetary stimulus.

India was one of the best performing markets in the Emerging Markets Index.

The JSE FTSE All Share rebounded sharply to return 14.0% for the month with resources being the star performer as the Chinese economy showed signs of recovery following a decline in the spread of the Covid-19 virus.

GLOBAL

U.S.

Despite economic data continuing to highlight the severity of the impact of the economic shutdown, U.S equities rebounded sharply with the S&P 500 experiencing a spectacular rally. Initial jobless claims were 20 million in April and have risen to 30 million since the beginning of the virus outbreak. These figures are indicative of an unemployment rate in excess of 17%. GDP for Q1 reflected negative growth of -4.8% and this is likely to accelerate in the coming months.

Fiscal stimulus measures introduced by Congress have been enormous but might yet be insufficient. The Federal Reserve's response in terms of monetary stimulus has been dramatic in that it has committed to buy unlimited government bonds as well as investment grade corporate bonds. It has further indicated that it will retain interest rates at low levels until the economy is back on track towards full employment. Energy and materials were the sectors delivering the best performance.

Eurozone

Following the sharp decline in Q1 ,Eurozone equities recovered well in April with the MSCI EMU Index returning 6.5% although the Covid-19 virus continued to wreak havoc across the region. Italy , the epicentre of the virus outbreak ,experienced decreasing new infections and together with Germany indicated that a measured re-opening of the economy would be introduced.

The Eurozone GDP declined -3.8% in Q1 and will reflect a further sharp decline going forward. The IMF estimates a negative GDP of more than -7.0% for 2020 together with significant increases in individual countries deficits and debt levels. Business activity PMI for April came in at 13.5 down from 29.7 in March, a far cry from the break-even mark of 50.

U.K.

The FTSE All Share Index underperformed most other global equity markets in April due to its fairly large exposure to the energy sector where the oil price had come under considerable selling pressure. The fall in the oil price was due in some respects to the fallout from the virus pandemic but also due to a continued oversupply from both OPEC and Russia.

Royal Dutch Shell cut its dividend for the first time since World War 2. Forward looking economic indicators pointed to a precipitous decline in activity during April with the IHS Markit composite PMI dropping to 12.9 from 36.0 in March. Retail sales declined -5.1% m/m.

Japan

The Japanese market improved in the second half of April and ended the month with a positive total return of 4.3%. The yen was also less volatile, and gradually strengthened against the US dollar. Compared to other developed countries, Japan continues to experience a rather different response to recorded virus cases.

However, a gradual increase in cases led to a state of emergency being declared by the central government. Forward-looking PMI surveys suggest that the economic impact on Japan, while very negative, is still somewhat less severe than it is in Europe or the US. The Japanese government continued to step up its response to the crisis through fiscal and monetary stimulus.

EMERGING MARKETS

The Chinese economy is gradually re-opening with slow improvements in retail sales and production. Q1 GDP declined -6.8% y/y. Demand for Chinese goods in the U.S. and Europe is likely to remain weak whilst China will need to keep social distancing in place to prevent a second wave of contagion. Several emerging market central banks cut interest rates to support their economies, including South Africa and Turkey, which weakened their currencies against the dollar.

DOMESTIC

In line with global markets the local equity market was caught up in the euphoria of risk on optimism which prevailed during the early part of the month. The JSE/FTSE All Share Index returned 13.1% for the month and in total return terms 14.0%.

This however must be measured against the YTD performance which is down -10.4%. The Resources Index was particularly strong delivering a return of 23% but still down -8.1% YTD. The Industrial Index delivered 9.6% whilst the Retail Index was up 10.7%. The All Bond Index rose 3.9% whilst the Inflation-linked Bond Index returned 4.7%.

President, Cyril Ramaphosa announced a R500bn economic stimulus and social relief package, equivalent to 10% of SA's GDP, in a bid to contain the economic fallout from the coronavirus pandemic. The package included a special R20bn Covid-19 health budget and a R200bn loan guarantee scheme to help banks extend credit to businesses and support the economy.

The Reserve Bank cut interest rates by 1% for the second time in just less than a month, bringing the repo rate down to 4.25%. The 100-basis point cut follows a 1% cut on March 19th. In January, the Bank cut interest rates by 25bps. Governor, Lesetja Kganyago, stated that the central bank expects South Africa's economy to contract by -6.1% this year.

Further the implied path of policy rates over the forecast period generated by the SARB Quarterly Projection Model indicates five repo rate cuts of 25 basis points extending into the first quarter of 2021.

In a survey conducted between 30 March and 13 April 2020 Stats SA surveyed 707 businesses across various sectors of the economy that are not classified as essential services. This was to try and measure the potential impact the lockdown would have on the economy.

Of the respondents, 85.4% reported turnover below the normal range. Expectations on the severity of the economic fallout were also gauged in the survey. Nearly two thirds of respondents expect the COVID-19 pandemic to be substantially worse than the global financial crisis.

Interestingly, nearly a fifth of the respondents noted that more than 80% of their workforce was working remotely at home and 53.2% of respondents indicated that family commitments had not affected their ability to work remotely.

Global economies alongside world equity markets are sailing into unchartered waters. However, whilst we retain a degree of caution, we expect the recovery from the Covid-29 pandemic to be gradual and sustained.

We also appreciate that the unprecedented policy response on behalf of global governments and central banks has mitigated the balance of risk and so we continue to promote our policy of remaining fully invested.

Market index - Apr 2020 (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR	12YR
Local Equity (SWIX)	14.07	-10.89	-12.48	-14.63	-1.59	-0.17	6.38	9.00	7.45
Local Listed Property	7.00	-42.77	-44.52	-45.98	-21.38	-12.33	-5.16	3.32	2.76
Local Money Market	0.55	1.66	2.26	7.19	7.31	7.23	6.80	6.51	7.07
Local Bonds	3.92	-6.25	-5.14	0.06	6.11	6.09	5.49	7.68	6.36
Global Developed Equity in USD	10.92	-11.89	-12.25	-4.00	4.99	4.92	6.87	7.68	4.74
Global Emerging Shares in USD	9.16	-12.52	-16.55	-12.00	0.57	-0.10	0.74	1.45	0.30
Global Bonds in USD	1.19	1.57	3.22	7.97	4.24	2.98	1.50	2.35	1.95
Oil in USD	-10.71	-55.31	-60.94	-60.65	-16.79	-20.00	-20.11	-12.86	-10.83
Rand vs. USD	-2.75	-18.33	-23.86	-21.94	-10.01	-8.23	-9.71	-8.74	-7.34

Above indices returns are gross of fees.

Contact us

Head - Investment Analytics
Clive Eggers
T +27 (0) 21 412-1062
E ceggers@gtc.co.za

Analyst - Investment Analytics
Samir Narotam
T +27 (0) 10 597-6826
E snarotam@gtc.co.za

Head - Healthcare
Jillian Larkan
T +27 (0) 21 412-1062
E jlarkan@gtc.co.za

Head - Employee Benefits Administration
Nadira Sarang
T +27 (0) 21 713-8500
E nsarang@gtc.co.za

Private Client Wealth Management
Jenny Williams
T +27 (0) 10 597-6840
E jwilliams@gtc.co.za

Employee Benefits Consulting
Toy Otto
T +27 (0) 10 597-6861
E totto@gtc.co.za

Managing Director - Risk Solutions
Roy Wright
T +27 (0) 21 286-0037
E rwright@gtc.co.za

Group Chief Operating Officer
Farhadh Dildar
T +27 (0) 10 597-6830
E fdildar@gtc.co.za

Group Chief Executive Officer
Gary Mockler
T +27 (0) 10 597-6831
E gmockler@gtc.co.za

Head - Finance
Andrea Diamond
T +27 (0) 10 597-6877
E adiamond@gtc.co.za

Compliance Officer
Dale Nussey
T +27 (0) 10 597-6828
E dnussey@gtc.co.za

Director - Asset Management
Manty Seligman
T +27 (0) 10 597-6800
E mseligman@gtc.co.za

formerly Grant Thornton Capital

a GTC, The Wanderers Office Park,
52 Corlett Drive, Illovo, 2196
p P O Box 55118, Illovo, 2116

t +27 (0) 10 597 6800
e info@gtc.co.za
w www.gtc.co.za

GTC (Pty) Ltd.
reg. no. 1996/001488/07
directors: G.K. Mockler, F Dildar

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