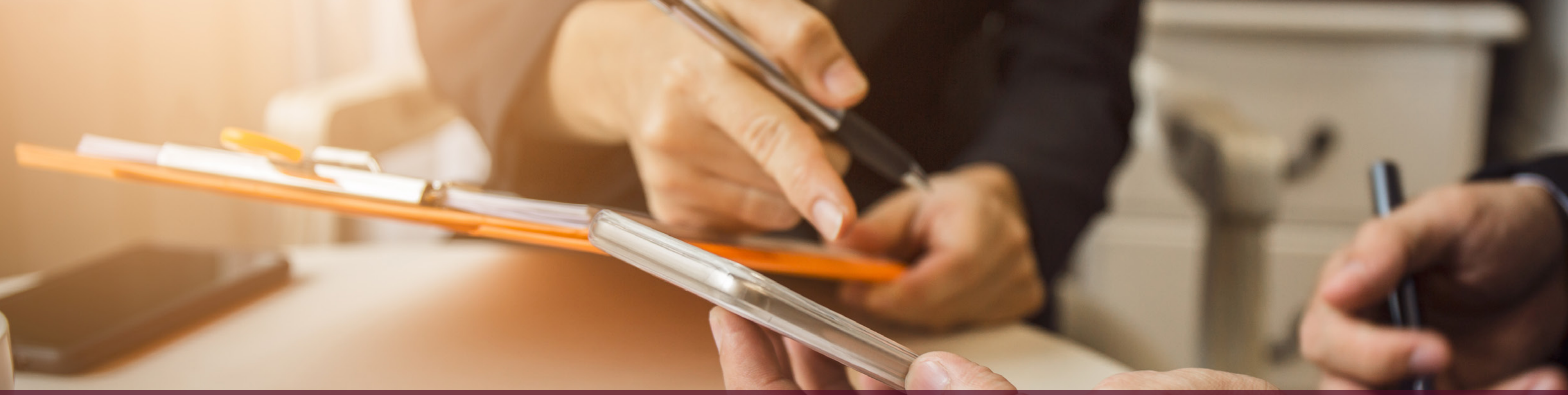


SELECT MANAGER

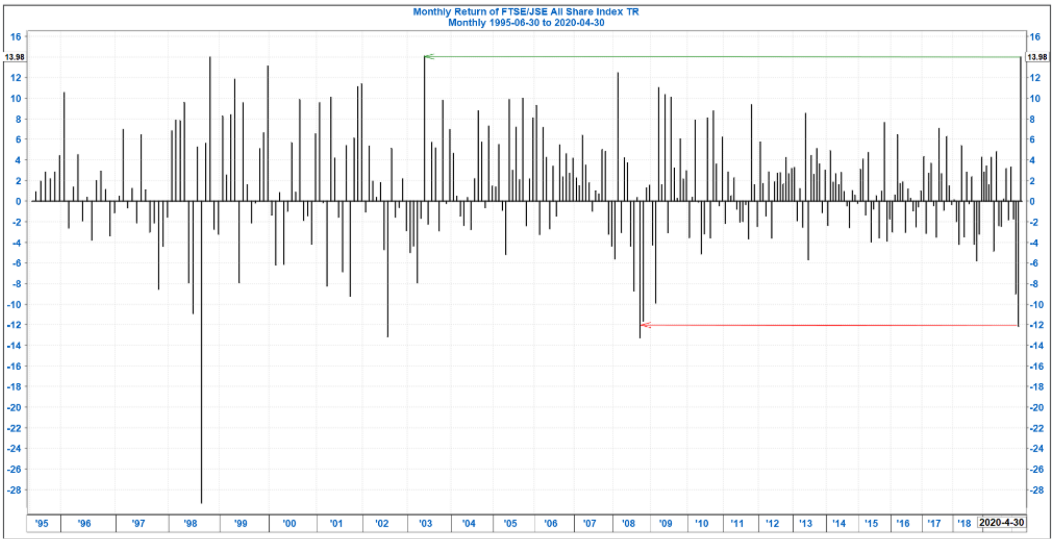
Newsletter

April 2020

April, much like March, was another eventful month. The noise and volatility remained, but the outcome, however, was completely different as markets saw a bounce back from the previous two months of large losses.

LOCAL ASSETS

Local assets added some much-needed returns for the month, with equity, bonds, and property all showing significant performance. The local equity index recorded one of its best months since early 2000, after two months of some of the worst returns since the Global Financial Crisis of 2008: a gentle reminder of the devastation caused in portfolios by selling out assets based on fear and sentiment.



Source: Iress

LAND BANK

The Land and Agricultural Development Bank of South Africa warned of a potential default on approximately R50 billion worth of debt. Naturally, this spooked investors, as the default also triggered defaults on other obligations. Their recent woes are more due to liquidity pressures than an insolvency risk as the bank's capital adequacy ratios are still in line with the big commercial banks in South Africa.

Land Bank plays a vital role in providing financial services to the agricultural and commercial farming enterprises in South Africa. Its strategic importance thus increases the likelihood of financial support. The broad risk theme from this event highlights the concerns around South African credit markets. Valuations have become less appealing, and credit risk has increased as lower quality instruments become more popular in the search for yield.

LOCKDOWN

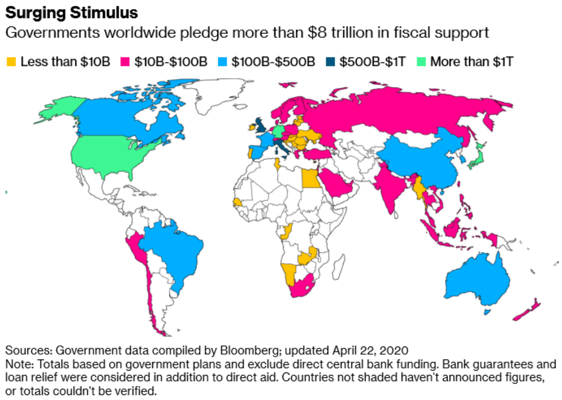
After announcing a two week extension to lockdown in early April, the plan for the gradual reopening of the economy was set out. Based on the new risk-adjusted approach, we have seen a slight relaxation in controls, allowing for additional sectors to return to work, and even a three-hour exercise window. It seems there is a growing divide between those that support the aggressive stance government has taken towards the virus and those that have lost the most financially and the last group is growing restless.

In a recent COVID-19 impact survey conducted by Stats SA, for the reference period 30 March 2020 to 13 April 2020, more than 85% of businesses reported below normal turnover, while close to 50% indicated temporary closure or paused trading. The survey further indicated that 30.6% of businesses could survive less than a month without any turnover, while more than 50% can only survive between 1 and 3 months. As we are now in the 1 to 3 months bracket, businesses will definitely be eager to open their doors.

Asset managers continuously assess the impact of the lockdown and the unwinding thereof on the underlying investments in the funds. Those companies that are allowed to start trading again will most probably be more resilient than those that will only be allowed to trade after the lockdown.

GLOBAL STIMULUS

On the global front, further drastic steps are also continuously taken in the fight against COVID-19 and the potential aftermath. Economies around the world are throwing all they have at the problem to try and minimize the impact on businesses and consumers. Unfortunately, many countries, including South Africa, are not nearly as equipped as others to provide the much-needed financial support.



Source: Bloomberg, https://www.bloomberg.com/news/articles/2020-04-23/when-8-trillion-in-global-fiscal-stimulus-still-isn-t-enough

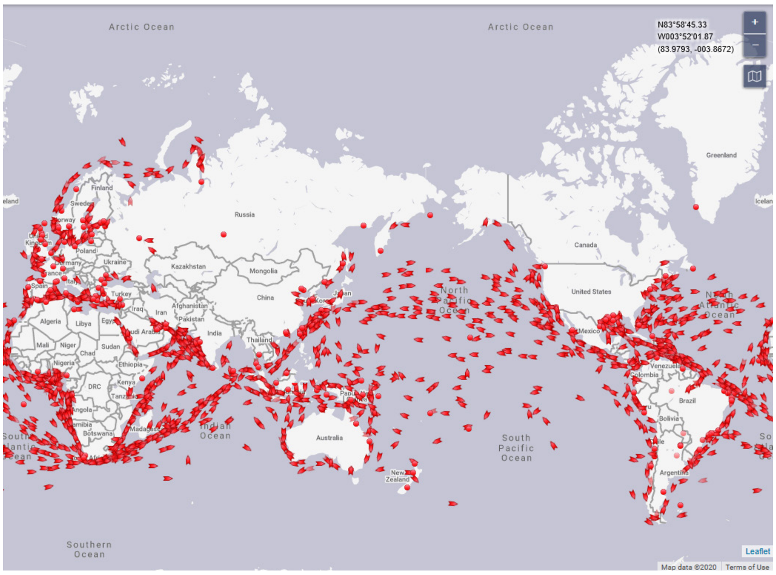
Locally, a R500bn (approx. 10% of GDP) stimulus package was announced, aimed primarily at the healthcare response, as well as social relief and economic support. Funding of this package will come from various sources, including the UIF (Unemployment Insurance Fund). According to initial indications, Treasury is looking to raise around R95bn of the R500bn from the following potential lenders:

+ R918.8m from World Bank ($50m);
+ R18.4bn from the New Development Bank ($1bn); and
+ R77bn from IMF ($4.2bn).

Combining the fiscal and monetary support, this brings the total stimulus package to more than R800bn in South Africa thus far.

NEGATIVE OIL

For the first time in history, oil prices went negative, according to West Texas Intermediate (North American oil pricing benchmark). May futures contract fell to a low of -$37. The primary drivers behind this have been a diminishing demand due to the lockdown, and the high costs of storage. As storage capacity has dried up, holders of futures (oil) have scrambled to get rid of the contract before it expires, as they either have no place to store it or are unable to take physical delivery, effectively paying someone to take it. Although Brent Crude oil has been less vulnerable, since it has somewhat less storage constraints, even these storage facilities have started filling up. Record amounts of oil are being held in "supergiant" oil tankers, with floating storage last seen at these levels in 2009. The graph below from Marine Traffic shows the tanker traffic around the world oceans in red.



Source: Tankers, Marine Traffic (https://www.marinetraffic.com/en/ais/home/centerx:-169.8/centery:-41.2/zoom:2)

JSE All Share 13,98% | 50 336,72	**MSCI World** ***(USD)*** 10,92% | 2 052,85	**MSCI EM** ***(USD)*** 9,16% | 924,94	**SA Bonds** 3,92% | 662,60
SA Property 7,00% | 238,17	**CPI (y/y)** 4,10% | 115,60	**Gold** 6,30% | 1 717,01	**Platinum** 7,18% | 777,47
Oil 0,50% | 26,48	**£/R** 5,34% | 23,33	**€/R** 2,93% | 20,29	**$/R** 3,34% | 18,53