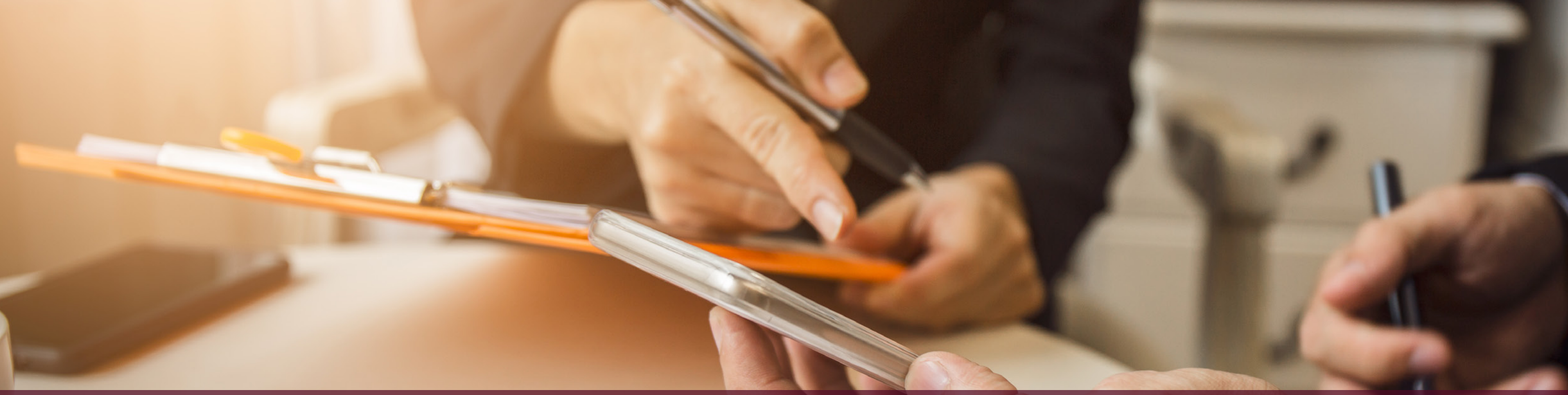


SELECT MANAGER Newsletter

January 2020

At the start of the year, equity markets continued the upward trend, following the gains from 2019. Investor sentiment was boosted by:

+ the expectation that corporate earnings would continue to improve;
+ mild inflation;
+ supportive monetary policy; and
+ the signing of a trade deal between the US and China (phase 1)

All the gains were lost in the latter part of the month when the coronavirus broke out. The World Health Organization (WHO) declared the coronavirus outbreak in China to be a global emergency. The WHO's primary concern is if the coronavirus spreads to countries with less developed healthcare systems the death toll and spread would then rise drastically. Many global airlines have suspended flights to China.

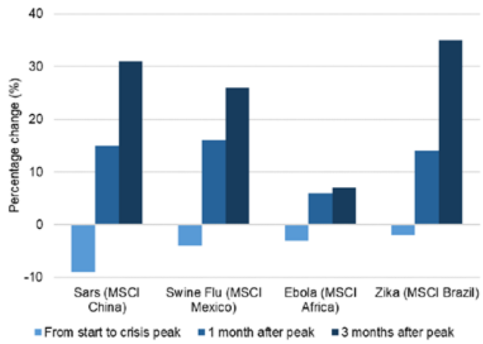
Based on the SARS experience, the number of infected cases by the coronavirus may continue to rise in coming weeks. During the SARS outbreak, the Chinese government was secretive and tried to hide the fact until it was too late. This time around, Beijing is very transparent about the disease and has taken aggressive actions to contain the spread of the virus, including locking down Wuhan, a city of 11 million people and building two hospitals in 10 and 12 days respectively.

Global markets recovered some of the losses during early February. The risk-on sentiment was aided by a resilient U.S. economy and investors speculated the fallout from the coronavirus could be contained. Addition to this, optimism was injected into markets when China reported they would cut additional tariffs on US imports into their country. This was a signal that China are willing to tow-the-line on the trade front with the United States. Added to this, global central banks remain accommodative, which has been and is likely to continue to support markets.

The United Kingdom (UK) officially left the European Union (EU) on 31 January 2020. They have now moved into a transition period for eleven months till the end of this year. During this period, the UK still needs to make periodic payments to the EU and abide by their regulations. This period gives the UK and the EU a chance to decide on the future long-term trade deal. In the meantime, the UK will be allowed to negotiate with other nations about future trade deals, which was not previously allowed. They will only be able to sign a new trade deal after the transition period.

In South Africa, Eskom is still in the news. Their new rigorous approach to maintenance now most likely means load shedding will become the new norm. Eskom has come up with a new term known as "philosophy maintenance" which tries to obtain enough downtime to attend to the much-needed maintenance required at Eskom, which will in turn lead to higher availability of electricity down the line. Bond investors are focused on the upcoming February budget, which will provide guidance on yields for the rest of the year. Given the shock at the 2019 MTBPS, debt sustainability is becoming a material concern for investors. Decisive interventions and tough decisions are required to restore the fiscal deficit.

In summary: Markets will remain volatile until there is a slowdown in the spread of the coronavirus. News surrounding the virus paints a gloomier picture for China than should be the case. It is a serious virus, but China was proactive in trying to contain the virus. Bad news sells. As such, the combination of sensationalist reporting and fake news will create an intoxicating narrative which will probably create some market volatility. As always in China, when there is an over-reaction, it is probably a good opportunity to buy. Markets tend to deliver good returns after the peak of a virus as indicated in the diagram below.



Source: JP Morgan, FT

Source: JP Morgan, FT

<table>
<tr><td>JSE All Share
- 1,69% | 56 079,54</td><td>MSCI World (USD)
- 0,61% | 2 342,41</td><td>MSCI EM (USD)
- 4,66% | 1 062,34</td></tr>
<tr><td>SA Bonds
1,19% | 706,79</td><td>SA Property
- 3,06% | 431,03</td><td>CPI (y/y)
4,10% | 112,20</td></tr>
<tr><td>Gold
4,30% | 1 589,69</td><td>Platinum
- 1,40% | 957,50</td><td>Oil
- 12,10% | 58,16</td></tr>
<tr><td>$/R
7,20% | 15,00</td><td>€/R
6,10% | 16,65</td><td>£/R
6,80% | 19,81</td></tr>
</table>

t: 087 056 9633 | e: info@selectmanager.co.za | Catnia Building, Catnia Building, Bella Rosa Village, 21B Durbanville Ave, Rosendal, Cape Town, 7530
FSP Licence no : 928