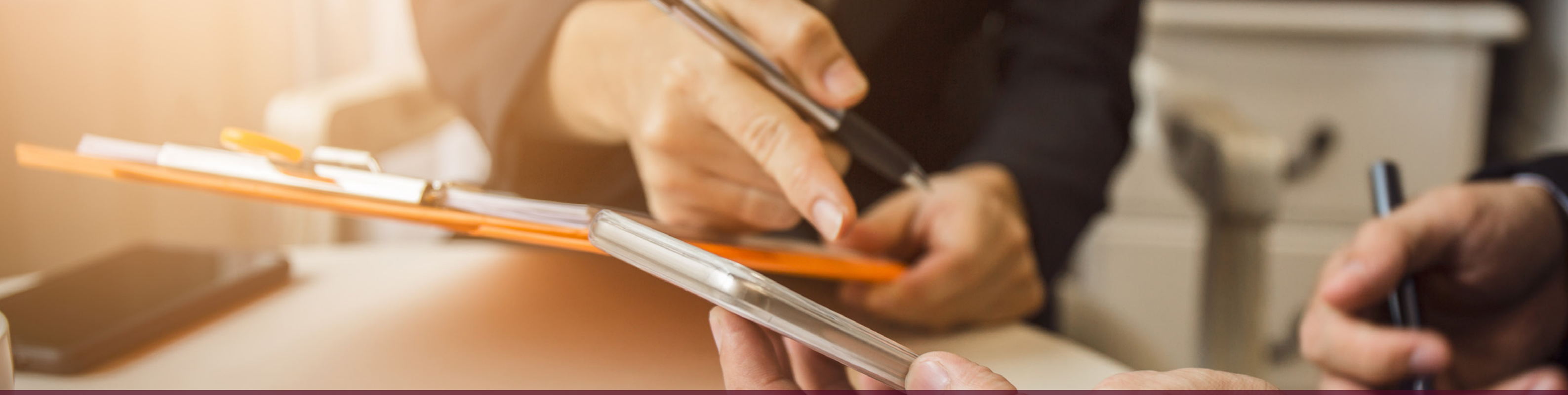


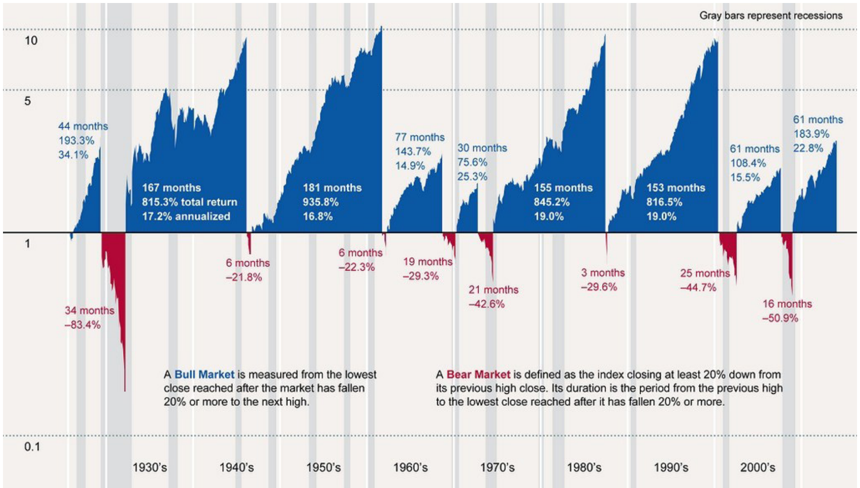
SELECT MANAGER
Newsletter

March 2020

The COVID-19 coronavirus pandemic is causing havoc in global markets as concerns grow over the economic impact of national lockdowns. It will have a real impact on companies as countries, including South Africa. In addition to this, the oil price fell, and South African bonds were downgraded to sub-investment grade (junk status).

DECLINE IN EQUITY PRICES

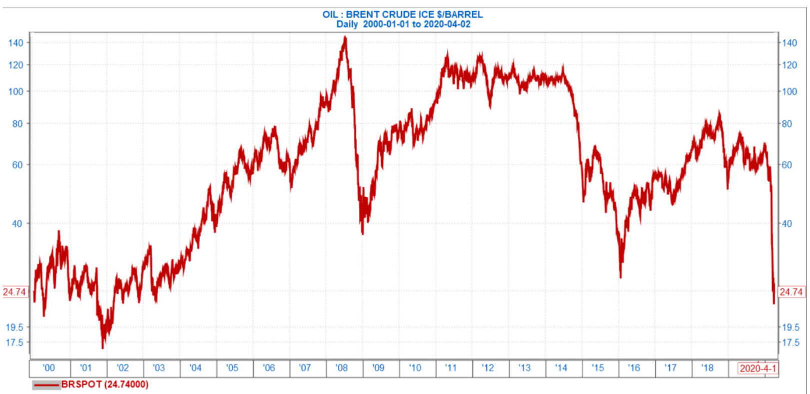
Equities fell by as much as 35% since their peak in January 2020 as the outlook for earnings from companies is uncertain. A bear market is usually, but not always, linked to a recession. When markets recover, equities tend to deliver significant returns after a bear market (>20% fall in equity prices) as illustrated below for the S&P 500.



Source: Jerry Kerns, Morningstar

FALL IN OIL PRICES

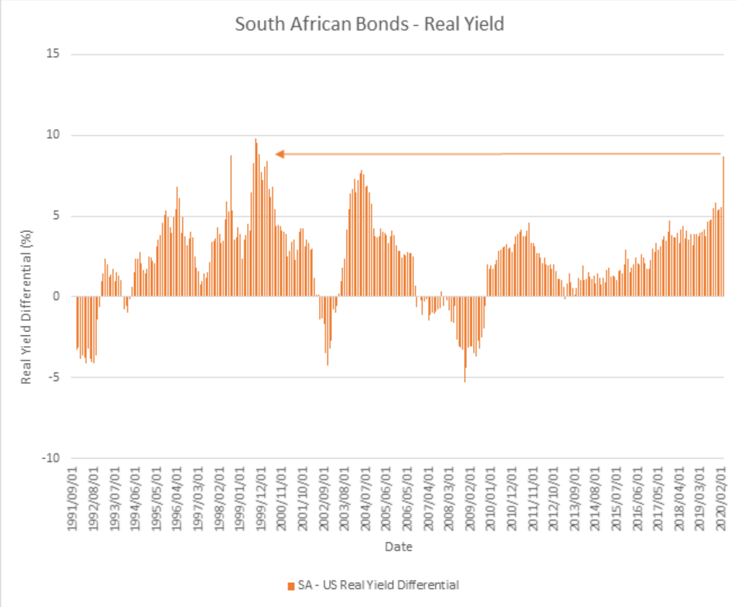
We also recently saw a major shock on the oil market, as Saudi Arabia launched a price war with Russia. The global demand for oil was already muted due to the economic impact of the coronavirus (COVID-19) outbreak, especially from China, the largest oil importer. This price war added "oil" to the fire and saw oil crashing around 30% overnight, putting the cost of oil at around $30 per barrel. This was the biggest one-day drop since 1991 and put prices back to levels last seen in 2003. Although it has had a negative impact on Sasol, it is generally positive for an economy such as South Africa's, that is a net-importer of oil. The price of petrol fell by R1.88 on 1 April 2020, despite a weaker South African rand. This should support subdued inflation which in turn will support lower interest rates.



JUNK STATUS

On Friday 27 March, the international rating agency Moody's downgraded South Africa's long-term foreign and local currency debt ratings to sub-investment grade and maintained their negative outlook. The reasons for the downgrade are well publicised. Since 2017, South African bonds were sub-investment grade according to S&P and Fitch. Foreigners already sold many of the South African bonds in anticipation of the downgrade. South African Government Bonds will be leaving the World Government Bond Index at the end of April 2020.

However, all is not lost for South African bonds. Sub-investment-grade debt indices are well supported by the current monetary policy by developed markets of zero to negative interest rates. A downgrade, therefore, does not automatically translate to a complete sell-off by foreign investors. South African bonds are now offering an attractive yield of ± CPI+8%. See below a comparison between the real return (return after inflation) of South African 10-year bonds versus United States 10-year bonds. South African Bonds are the cheapest versus United States bonds since 1999. The recent decision by the South Africa Reserve Bank to launch a Quantitative Easing Programme should support bonds. A study conducted by ETM, on countries that have been downgraded, provides some comfort. They concluded that most countries' local bonds tend to improve after a downgrade.



Source: IRESS

GLOBAL STIMULUS

It is important to know and understand that governments and central banks all over the globe are taking extraordinary measures to support their economies during these challenging times. Action by governments and central banks have generally been swift and decisive. Central banks certainly understand the gravity of the situation and the response is more aggressive than that taken during the Global Financial Crises of 2008. The US Federal Reserve stated bluntly that it will do "whatever it takes" to support the economy, as it announced unlimited bond buying (quantitative easing). The table below indicates only some of the initiatives of various governments to support the markets.

Country	Fiscal Easing	Monetary Policy - Liquidity
CHINA	1.3 trillion RMB ($183 billion), 1.2% of GDP.	3 trillion RMB liquidity, RMB 800 billion lending facilities and RMB 350 billion credit extension to SME.
FRANCE	€45 billion (1.9% of GDP) & €300 billion (13% of GDP) of state guarantees.	ECB €750 billion asset (bond) purchase program.
GERMANY	€156 billion (4.5% of GDP), €50 billion in grants and €822 billion (24% of GDP) public loan guarantees .	ECB €750 billion asset (bond) purchase program and €100 billion to refinance short-term liquidity provision.
HONG KONG	HK$152 billion ($19 billion), 5.3% of GDP.	The Base Rate reduced to 1.50% and 0.86%.
ITALY	€25 billion (1.4% of GDP) and €350 billion (20% of GDP) credit supply.	ECB €750 billion asset (bond) purchase program.
SOUTH AFRICA	ZAR12 billion (0.2% of GDP) and R5.5 billion donations.	SARB reduced the policy rate by 1% to 5.25%.
SPAIN	€18 billion (1.4% of GDP), revised to €200 billion.	ECB €750 billion asset (bond) purchase program, €100 billion government loan guarantees.
UK	£18 billion (4% of GDP), revised to £330 billion.	+ Reducing Bank Rate by 0.65% to 0.1%. + £200 billion bonds and £330 billion of loans and guarantees available (15% of GDP).
USA	US$2 trillion (10% GDP).	Federal funds rate lowered by 1.50% to 0-0.25%.

PORTFOLIOS

Portfolio management at these times require a calm head and staying true to your investment philosophy. This ensures that you do not react to short term noise, but rather consider the longer-term impact of this event and the potential opportunities they present. Given the significantly increased volatility (with large swings to both the down- and upside), we believe it appropriate to retain a well-balanced allocation across the investment styles and asset classes. Although the value of the portfolios has been affected by the current downturn, it is imperative to remember that no losses have been realised. It is only when you sell out of the market or make switches that you lock in a loss.

We continuously assess the economic impact on the portfolios and make the necessary changes when appropriate. We are not changing our process or philosophy given recent market events, but we are increasing our monitoring frequency and we are thinking ahead as to what the next changes and tilts should be given the data available. The role as an investor, although a daunting task, is to not panic. Your capital is invested with fund managers who have a long-term track record of managing capital with great success, including previous periods of market downturns. The portfolios are well diversified across asset classes and geographies, which ensures that your capital is not as volatile as the market.