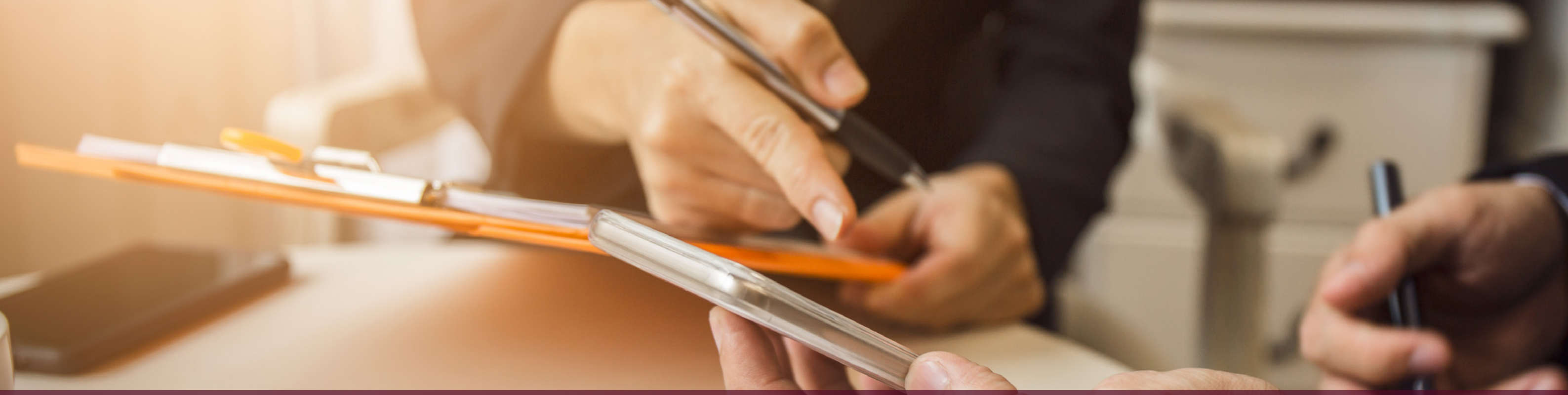
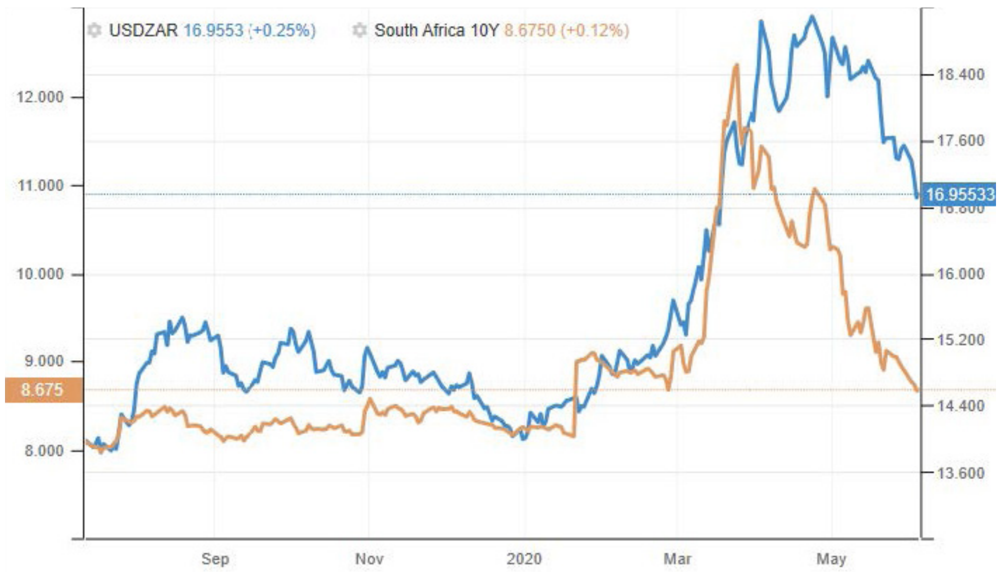


SELECT MANAGER Newsletter

May 2020

MARKETS

Global markets had another relatively strong month in May, as most major indices added positive returns. Equity markets remain propped up by large scale monetary and fiscal stimulus measures and was further supported by the global easing of restrictions on activity. The lack of highly convincing alternatives due to the low yields available from Developed Market bonds and cash, underpinned Global Equities and continue to do so. Locally, equities delivered muted returns, with mixed performances from the underlying sectors. Strong returns from the larger platinum and diversified miners managed to drive Resources, which was the largest contributor for the month. The best local asset class for the month was Bonds, as investors picked up the attractive yields available. This trade was made even more attractive by the cheap rand, buying high yield with a relative margin of safety. The currency has subsequently appreciated from an intra-month high of R18.84 at the start of May to around R17.55.



**Source: Trading Economics, as at 04/06/2020*

ECONOMICS (AND POLITICS)

From an economic perspective, it seems that financial markets are ignoring the facts for now, or at least looking past them and rather staying optimistic about recovery. Economic weakness is clearly visible in not only the United States (US), but across various Developed Markets, as well as Emerging Markets. While leaders across the world were trying to put out fires in individual economies, we saw the re-emergence (at least from a media perspective) of US-China tensions, civil unrest, and anti-globalization comments.

After already criticising the way China handled the COVID-19 outbreak, US President Donald Trump announced that he would be withdrawing the US from the World Health Organization (WHO) due to China's perceived control. Trump also announced further action against China, after they passed a national security law for Hong Kong that has been called a "killer blow" to their autonomy and freedom.

A recent article from the Bureau of Economic Research (BER) commented on how it has been argued that previous global pandemics exacerbated the trends that were in place before the pandemic hit. With concerns around protectionist policies, anti-globalization, and US-China tension plaguing global markets for years before the COVID-19 pandemic, we could see even more inward-focus from major economies as we move to a post-pandemic period.

Date	Move	%	New
2020/01/16	Cut	0.25%	6.25%
2020/03/19	Cut	1%	5.25%
2020/04/14	Cut	1%	4.25%
2020/05/21	Cut	0.50%	3.75%

In South Africa, we saw the CPI data release postponed, a large drop in exports, and a further 50bps cut in interest rates by the South African Reserve Bank. The latest cut takes the interest rate down to 3.75%, the lowest level in approximately 47 years, and the largest cumulative reduction in such a short period. Putting this into context through the prime rate, on a R1 million, 20-year home loan the monthly instalments are now approximately R1 747, lower than they were a mere five months ago.

RECOVERY IN OIL

After a major crash in April, leaving some futures trading in negative territory, oil prices staged a strong recovery in May. Brent Crude oil ended the month at $35/barrel, up 40% from the previous month. The recovery was supported by the easing of global lockdown restrictions and the potential return of a demand for oil, although the rising tensions between US and China slowed the recovery towards month-end. Further support was provided by production cuts from OPEC and its allies, with producers in US and Canada cutting by more than 1.7mil barrels per day. The major producers have now also agreed to extend production cut, withdrawing almost 10% of global supply, until the end of July.

Source: Trading Economics, as at 05/06/2020

Sasol extended its rally from the March lows, supported by the same factors of potential recovery in oil demand and easing lockdown restrictions. With Sasol being highly geared towards the movements in oil, the recovery in prices will remain supportive. However, the company faces short-term operational risks and consequential volatility as they try to fix the balance sheet through various measures including asset disposal and a potential rights issue.

"UNCERTAINTY IS THE ONLY CERTAINTY..."

There will be many challenges and uncertainties as we move into a post-pandemic world, but opportunities will always be present. In a world with an abundance of media coverage and constant reminder of shocks worldwide, one should be careful not to get sucked in by the noise. We continue to manage portfolios in a prudent and diligent manner, following our processes, and taking opportunities when they present themselves.

JSE All Share 0,31% | 51 389,12	**MSCI World *(USD)*** 4,83% | 2 147,88	**MSCI EM *(USD)*** 0,77% | 930,35	**SA Bonds** 7,06% | 709,05
SA Property - 0,76% | 235,26	**CPI (y/y)** 4,10% | 115,60	**Gold** 0,24% | 1 721,09	**Platinum** 7,01% | 831,95
Oil 42,91% | 37,84	**£/R** - 7,12% | 21,67	**€/R** - 3,97% | 19,48	**$/R** - 5,32% | 17,54

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