View of the month – March 2020

Picture credit: Dingane Xaba, Unicorn Riot

Dear Investor,

During March 2020, South Africa arguably experienced **two of its worse economic setbacks** since the dawn of our democracy:

1. Covid-19 pandemic and subsequent lockdown (reflected in the empty streets of our view of the month picture above)
2. Moody's downgrade of SA's credit to sub-investment

Covid-19

The coronavirus continues to dominate risk sentiment, with the **number of cases worldwide climbing above 850,000**. US President Donald Trump warned Americans to prepare for a "very tough two weeks" as he revealed that the White House estimated that the **US could see as many as 240,000 deaths** even if social distancing guidelines are adhered to until the end of April.

The absolute numbers in thousands stated in the above paragraph, will create angst and paranoia for any reader. We want to ease the readers' mind that even though the numbers quoted above are accurate as we pen this note, the use of absolute numbers creates a distortion (240 thousand out of 320 million US citizens sounds much worse than 0.00075 of the US population). In this article written by Deon Gouws from Credo, he suspects **there has been huge misleading reporting about the pandemic due to a consequence of questionable mathematics.** The article identifies the following:

- The fact that the **infection rate is increasing exponentially** is surely as a result of an increase in testing and the more you test for something, the more likely you are to find. The example here is the UK that is currently performing 10,000 coronavirus tests per day, soon to be increased to 25,000 per day
- The **mortality rates quoted often does not take into account normal mortalities** that would have occurred anyway. The example was that Italy has the oldest population in Europe and the fact that it was winter, there would have been a high mortality rate in Italy regardless of the pandemic. Reports also indicate that 99% of the deceased had been suffering from at least one comorbidity. The question is if an 85-year old with stage 4 or 5 cancer contracts Covid-19 and passes away a week or two later, is it really fair to ascribe the resulting death to the virus (as opposed to the cancer)

With the above we're not saying you should ignore the numbers, we're just saying you should see it in context. We're in day 7 of the lockdown in SA and even though the markets and exchange rate is holding up, it is still early days and the pandemic will exacerbate our fragile domestic economy. Business closures and cutbacks will intensify our unemployment and growth, aggravating our recessionary conditions. **Take caution when investing during this time.**

<u>Moody's downgrade of SA's credit to sub-investment</u>

South Africans were still surprised even though this was probably the best telegraphed country investment downgrade in history. Some argue it was harsh to downgrade South Africa in the midst of the Covid-19 pandemic, even comparing it to someone being kicked while lying down. In reality, **we were warned for more than 2 years to get our house in order and we chose not to.** To make it worse, not only were we downgraded but our outlook was also left on negative which implies further downgrades can occur if we do not act on certain triggers soon.

On Monday post the downgrade, the market was up 0.6% while the Rand was marginally stronger against the US Dollar. **Many market commentators argue this shows the downgrade was already priced in.** We caution against this thinking as the rebalancing of the World Government Bond Index (WGBI) will only occur in May. At that point we will see the impact of the sale of our government bonds by international asset managers that is not allowed to hold sub-investment grade bonds in their portfolios.

If the downgrade was NOT priced in, the sale of our bonds will cause weaker bond prices which **will require higher interest rates and lead to higher funding costs not only for government but also for businesses and households.** The sale of our bonds will also lead to an outflow of Rands, as foreigners take their money to invest in other countries' government bonds.

This sale and conversion of Rands might cause a weaker exchange rate and can lead to inflationary pressures which could be dire because of the amount of imports we as South Africans consume. The one silver lining is that we can participate in the higher interest rates on offer from our government bonds without concern of currency fluctuation. With our low inflation the real yield from SA government bonds is arguably the highest in the world. **The concern is however if paying these high interest rates are sustainable and if government will default.** We believe that our financial system is very deep and developed for an emerging market and that this plus the fact that most of our government debt is in Rands, might ensure government does not default. Lastly and for what it is worth, our 5-Years Credit Default Swap (CDS) has an implied default probability of only 6.88%.

Personal finance survival tips

There's been a flurry of guides on the internet on how to survive the lockdown from a mental and physical point of view. Moneyweb also published a great article listing 21 things to do with regards to your personal finance during the lockdown. In our newsletter we expand and go into a few other personal finance survival tips:

- Don't liquidate your investments
- Keep contributing towards your retirement savings
- Buying the dips
- Credit insurance on home loans

Don't liquidate your investments – Investors should remain invested during times of volatility. Investors who try to time the market will get it wrong more often than they will get it right. **Market recoveries often happen very quickly after a correction, and if an investor decides to get out when the going gets tough, it becomes very difficult to get back in at the right time.**

Rupert Giessing uses the following example in one of his great articles – an investor that was invested for a 10-year period, from January 2006 to December 2015, would have made a cumulative return of 270% on their investment, but if they missed only the top five months during the 120-month period, the total return would have been 220%. **To put this in perspective, a fifth of the total return came from only five months.**

Keep contributing towards your retirement savings – We're aware that during market crashes, investors opt to stop their monthly contributions towards their retirement savings. We don't agree with this approach for the following three main reasons:

- As indicated above, markets will recover and by continuing to contribute during times of crisis, investors take advantage of reduced asset prices
- Retirement saving contributions are not taxed and by therefore not contributing and taking your contribution as part of your salary, you will be taxed on the money and potentially at a higher tax bracket
- Unlike Retirement Annuities (RA), investors have access to their pension and provident funds should they resign or become unemployed

Buying the dips – Click here for a useful decision tree created by Wealthsimple. The decision tree reminds us that we need to first insure the following is in place before we call the bottom and speculate in the market:

- First pay off high interest debt like credit cards
- Have an emergency fund in liquid cash to cover at least 3 to 6 months of expenses
- Depending on your age and existing retirement savings, first contribute a good portion of your annual salary towards your retirement savings utilising the tax break received from these investment vehicles

Credit insurance – According to this video clip by Maya Fisher-French, if you have taken out credit, you most likely have a credit life policy linked to that loan for which you are paying a monthly fee. While it has many names such as credit life, credit protection insurance or payment protection insurance, it is essentially an insurance policy that pays out should you die, become disabled **or not receive an income as potentially the case with the current Covid-19 pandemic**. The benefit could pay up to 12 months of your credit instalments. Ask your bank about this before asking for a payment holiday…

Fuel prices

Oil prices are at very low levels, with the Brent crude oil price at US$25/bbl, while the rand has exceeded R18.00/USD. The price war between Russia and Saudi Arabia continues, but the extreme weakness in the oil price has counteracted the rand's depreciation, **leading to a just under a R2/litre fall in the petrol price in April, and more than a R1.50/litre cut in the diesel price.**

This will provide some relief to consumers, but higher prices in the shops for some goods are likely as a result of the currency depreciation. For domestically produced foods and non-alcoholic beverages consumers could gain from some slowing in price inflation given an expected improvement in agricultural production.

Quote of the month

In line with the current turmoil our markets find itself, we thought the following **quote by Benjamin Graham** to be appropriate:

"In the short-term Mr. Market will quote wildly diverging prices depending on whether he wakes up in a manic phase or a depressive phase each morning. **This makes the market very inefficient in the short-term.** However, we know that over the long term the market is efficient and will reflect the true value of good businesses. **Therein lies the opportunity for the intelligent investor."**

The markets

The red block shows the market stats for the month of March 2020. In short, **all sectors were very negative** with the **JSE All Share Total Return index** down ↓-12.1% for the month (↓-18.4% for the last 12 months). The **Listed property sector** was the worst hit down↓-36.6% for the month. The **Financial sector** down ↓-29.7% with the Moody's downgrade exacerbating the pain this sector took.
The **Resources sector** was down ↓-14.1% and the **Industrial sector** the least affected down ↓-3.4% for the month, thanks to Naspers and the demand for online gaming and other online services continuing during the Covid-19 pandemic and subsequent lockdown

	Close price at 3/31/2020	Daily % change	Month to date	Year to date	Last year
FTSE/JSE indices					
All-Share Index	44,490.31	2.5%	-12.8%	-22.1%	-21.2%
All-Share Index Total Return	6,808.89	2.5%	-12.1%	-21.4%	-18.4%
Resources Index	20,764.83	0.3%	-14.1%	-26.7%	-22.1%
Industrials Index	68,379.92	2.3%	-3.4%	-8.9%	-9.0%
Financials Index	23,718.48	6.4%	-29.7%	-39.7%	-42.0%
Top 40 Index	40,738.57	2.5%	-11.2%	-19.8%	-19.0%
Shareholder Weighted Index	16,281.66	3.1%	-14.2%	-23.3%	-20.9%
Capped Shareholder Weighted Index	16,926.06	3.4%	-16.7%	-26.6%	-24.5%
SA Listed Property Index	973.15	5.7%	-36.6%	-48.2%	-47.9%
SA Volatility Index	37.93	-21.5%	76.7%	139.9%	119.5%
Interest-bearing indices					
JSE Assa All Bond Index (Albi)	637.62	4.1%	-9.7%	-8.7%	-2.9%
SteFI Composite Index	448.30	0.0%	0.6%	1.7%	7.3%
JSE Assa SA Government ILB Index	580.51	-0.3%	-17.5%	-16.8%	-15.2%
Interest rates					
Prime rate	8.75%			-12.5%	-14.6%
Repo rate	5.25%			-19.2%	-22.2%
Commodities (in US dollars)					
Gold price	1,615.31	-0.2%	-1.3%	6.0%	25.0%
Platinum price	725.39	1.2%	-17.7%	-25.3%	-14.2%
Oil price	26.35	15.8%	-46.9%	-60.2%	-61.0%
Global indices (in base currency)					
Dow Jones (US)	21,917.16	-1.8%	-13.7%	-23.2%	-15.5%
S&P 500 (US)	2,584.59	-1.6%	-12.5%	-20.0%	-8.8%
FTSE (UK)	3,107.42	2.2%	-15.4%	-26.0%	-21.9%
Hang Seng (Hong Kong)	23,603.48	1.8%	-9.7%	-16.3%	-18.8%
Shanghai	2,750.30	0.1%	-4.5%	-9.8%	-11.0%
Nikkei (Japan)*	18,917.01	-0.9%	-10.5%	-20.0%	-10.8%
Cac 40 (France)	4,396.12	0.4%	-17.2%	-26.5%	-17.8%
Dax (Germany)	927.23	1.4%	-16.7%	-25.2%	-14.4%
MSCI Emerging*	848.58	2.0%	-15.6%	-23.9%	-19.8%
MSCI Developed*	1,852.73	-0.9%	-13.5%	-21.4%	-12.1%
US Volatility Index	53.54	-6.2%	33.5%	288.5%	290.5%
Exchange rates					
Rand/US dollar	17.85	-0.4%	14.0%	27.5%	23.2%
Rand/euro	19.71	-0.4%	14.1%	25.6%	21.3%
Rand/pound	22.15	-0.6%	10.4%	19.4%	17.2%
Dollar/euro	1.10	-0.1%	0.1%	-1.6%	-1.6%
Inflation indicator					
CPI					4.6%

Financial Indicators as at 31 March 2020:

JSE Sectors:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
FTSE/JSE All Share Index 40 TR	-11.97	-19.17	-16.22	-1.31	-0.44	2.67	0.53	111.60	7.80	1625.07	12.21
FTSE/JSE SA Listed Property Index TR	-36.17	-48.15	-47.91	-54.35	-23.02	-51.57	-13.51	32.00	2.82	415.55	11.06
South African--Equity--Financial	-29.55	-38.24	-38.75	-32.11	-12.12	-36.06	-8.57	56.51	4.59	778.09	10.16
South African--Equity--General	-15.87	-23.72	-22.14	-17.63	-6.27	-16.34	-3.51	64.52	5.11	9301.69	14.44
South African--Equity--Industrial	-3.85	-7.01	-6.92	-13.33	-4.66	-8.21	-1.70	161.78	10.12	5351.82	15.42
South African--Equity--Resource	-21.04	-29.12	-19.71	14.06	4.49	32.30	5.76	29.32	2.61	6165.90	13.07

Currencies (Positive indicates ZAR has weakened for the period, vice versa):

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
ZAR/AUD Exchange Rate	9.12	11.96	6.82	7.60	2.47	18.93	3.53	64.76	5.13	1275.55	5.48
ZAR/EUR Exchange Rate	14.71	25.58	21.11	37.73	11.27	50.02	8.46	99.31	7.15	1545.93	7.04
ZAR/GBP Exchange Rate	12.71	19.60	17.39	33.33	10.07	23.83	4.37	100.45	7.21	1190.91	5.34
ZAR/USD Exchange Rate	15.58	27.10	22.64	32.96	9.97	46.57	7.96	144.93	9.39	2376.18	6.75

Interest Rates:

Fund	1 Month (%)	3 Month (%)	1 Year (%)	3 Year (%)	3 Year annualised (%)	5 Year (%)	5 Year annualised (%)	10 Year (%)	10 Year annualised (%)	Since inception (%)	Since inception annualised (%)
BEASSA All Bond Index	-12.89	-12.27	-6.73	12.11	3.89	23.70	4.35	96.21	6.98	479.27	9.47
CPI Daily Index	0.76	2.05	4.68	13.52	4.32	28.04	5.07	65.15	5.15	7964.73	9.15
Prime Rate Daily Index	0.74	2.40	10.46	35.29	10.61	65.33	10.59	158.79	9.99	1159.04	12.53
South African--Interest Bearing--Money Market	0.03	1.72	7.16	23.72	7.36	41.43	7.19	85.42	6.38	581.25	8.75

If you do not wish to receive our monthly newsletter, please click to unsubscribe.

Vista Wealth Management
Magnus de Wet | 082 894 8654 (preferred) | Office: 010 141 6033 | magnus@vistawealth.co.za
info@vistawealth.co.za
www.vistawealth.co.za