



# OPPORTUNITY

PRIVATE CAPITAL

Economic Snapshot April 2020

## LOCAL HIGHLIGHTS & LOWLIGHTS

- All-Share Index 48,301, down -15.39% year to date.
- USD/ZAR: R18.66 from R16.58 per dollar a month ago
- South Africa 10Y Government Bond yield: Current 10.81%, 9.68% mid March, opened at 8.21% on January 2nd.

(Data: Bloomberg; Fin24, Google finance; www.worldgovernmentbonds.com)

## NEWS

- Coronavirus outbreak sweeping the world. Many countries on lockdown.
- Diagnosed cases surpass 2,000,000, deaths 130,000. USA now the epicentre.
- Oil price rebounds on OPEC+ deal to lower output, demand to remain subdued.
- China and WHO to be scrutinised over information handling, Trump to suspend payments to WHO.
- Worldwide markets rebound after Fed unveiled another \$2.3 trillion stimulus package.
- Worldwide move to fixed rate investments and tangible assets that still offer attractive yields & predictable income (ft.com & cnbc.com)
- Locally: Moody's downgrade finally happened. SA Reserve Bank has twice cut the repo rate by 100 basis points to 4.25%. Economy set for contraction in 2020.

## Lockdown lessons: The good, the bad, and the ugly

With the Coronavirus reshaping the international business world and most of humanity having been placed under lockdown, we can ask questions about the future and make some interesting observations as we watch collective- and country-specific responses unfold before us. Let's throw a few ideas around While mother nature has the chance to take a deep unpolled breath for the first time in decades.

### Political Power

Governments all around the world have been given unprecedented power in a short space of time, and the letting go thereof will be very interesting to watch. Locally Pres. Ramaphosa is doing well as a statesman and showing his acumen amidst an unprecedented crisis. On the other hand, Pres. Trump has already started playing the blame game as he will surely come under fire for his leadership and decision-making in 2020.

### Markets rebound with no earnings to support

Current prices for securities should always be a reflection of future cash-flows or gains, so the short bull run in April has many pundits saying it is premature and the global market still has to bottom out. Yet another crash should be expected as supply chains falter, unemployment grows and investor confidence craters. At the moment the market seems much more optimistic than the CEO's running the businesses they are investing in, and this is never a good sign.



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### **Business leaders, politicians and specialists**

A global rebalancing is on the cards in terms of who works with and listens to whom, and when. Governments, whether centrist, leftist or on the right, will invariably have to do introspection as they become the port of call for bail-outs and increased social support, and they may even realise politicians do not know better than highly trained and experienced experts and scientists. Capitalist thinking should come under fire as the past 20-25 years of technological development and global market growth has not lead to better equality across the globe. Global co-ordination set to receive lots of attention.

### **Corona looks like...**

Investors seem to be caught in a game of charades. By that I imply that people are still guessing what the current crisis really looks like: When the news first broke investors thought "Aha, it looks like SARS or MERS", and predicted a similar economic impact, prices moved little. As the fallout grew, markets said "we will have a V shape recovery like the 2008 GFC", and the last two weeks many senior forecasters are saying we should rather take lessons from the great depression.

### **Glass balls abound: Predictions**

- (i) Bill Gates: Business will travel much less in the future now that we see how effective technology is, shareholder meetings may move online.
- (ii) Steven Taylor: "...some people will become fastidious germophobes" & "Risk-averse, digitally connected people could continue retreating to the safety of home."
- (iii) Josh Bersin: "Radical shift in management culture. A shift toward empathy, compassion, and understanding."

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