BRENTHURST
THE HOME OF WEALTH

INTERNATIONAL MARKETS
-MELTDOWN OF EPIC PROPORTIONS IN ECONOMIES & STOCK MARKETS

March brought dizzying moves in the prices of equities and other assets. The worldwide sell-off, sparked by two so-called black swan events – the rapidly increasing novel coronavirus (COVID-19) infections and an unanticipated Russian assault on the oil price – worsened as governments implemented lockdown measures to fight the spread of virus. In unprecedented times, fears run high and in March investors seemed to be dumping all assets. Even gold, usually regarded as a safe haven, saw its price fall before recovering again and ending the month only 0.5% lower (for the 1st quarter of 2020 the price is up 3.9%).

In the US, March was the worst month for markets since the Great Depression with the three major stock indices recording significant MoM losses. The Dow ended March 13.7% lower MoM and for 1Q20 the index recorded its worst quarter in history – down 23.2%. MoM, the S&P 500 fell by 12.5% and logged its worst quarter since 4Q08 – down 20.0%. Even the usually reliable Nasdaq lost ground, closing 10.1% down MoM – its worst monthly performance since November 2008, according to *Reuters*.

The 1st quarter of 2020 was also the tech-heavy index's worst quarter since 4Q18 as it recorded a 14.2% drop. During the month, a proactive US Federal Reserve (Fed) announced two emergency rate cuts, which brought the Fed's overnight bank borrowing rate back to near zero and rolled out other emergency measures almost on a weekly basis including relaunching large-scale asset purchases.

US ANNOUNCES STIMULUS PACKAGE

An initial lacklustre response to the pandemic by the Trump administration has seen over 3 000 deaths in the US with over 164 000 cases confirmed as the country has become the new epicenter of the virus over the last few days.

Congress has deployed a massive $2trn stimulus package to cushion the economic blow from COVID-19 and is looking at taking additional steps to manage the mounting human impact. On the economic data front, US jobless claims hit a record of 3.3m late in March week, with a *Dow Jones* survey of economists stating that an additional 2.7m claims could be filed early in April, as struggling businesses lay off workers.

The UK's FTSE 100 plummeted 13.8% in March and delivered its worst quarter since 1987 on the back of COVID-19 investor panic – down 24.8% in 1Q20. European markets had a torrid month (and quarter), with Germany's DAX falling by 16.4% MoM and 25.0% in 1Q20. France's CAC ended the month 17.2% in the red and dropped by 26.5% for the quarter. With Europe (Italy and Spain in particular) becoming the epicenter of the virus in early March, the latest economic data show economic activity plummeting to record lows, with steep declines in manufacturing and services.

FACTORY OUTPUT PICKS UP IN CHINA

In Asia, China's Shanghai Composite was down 4.5% MoM and fell 9.8% in 1Q20. However, according to *The South China Morning Post* it remains the only major stock market index not in bear territory. Hong Kong's Hang Seng lost 9.7% MoM and is down 16.3% for the quarter. In some good news, China factory Purchase Manager Index (PMI) data released on 31 March showed an unexpected bounce for the month after plunging to a record low in February (when China was effectively shut down because of the virus). This indicator provides some hope for global markets as commentators believe that this could indicate an early phase China-led economic rebound. In Japan, stocks also recorded major declines with the Nikkei down 10.5% MoM (-20.0% in 1Q20).

LOCAL MARKETS

- MARKET BLEEDS THANKS TO COVID-19 HAVOC

Markets around the world experienced dramatic losses in March last seen during the financial crisis of 2008. The JSE, of course, followed that trend and ended March in the red across the board. Apart from the value destruction caused by the impact of the COVID-19 virus, the local market was also hit by news of a recession and a ratings downgrade by Moody's. The FTSE JSE All Share Index (ALSI) closed 12.8% lower MoM (-22.1% for the 1st quarter of 2020) as the share price rout impacted most of the shares in the index. Only 25 out of the 158 stocks in the ALSI recorded month on month gains. The share prices of market-cap heavyweights such as Glencore (-27.7%), Anglo American (-13.9% MoM), Anheuser Busch InBev (-9.8% MoM), Richemont (-7.1% MoM), and BHP Group (-3.7% MoM) were battered. However, despite extreme volatility, Prosus (+17.1%) and Naspers (+7.3%), managed to end March significantly higher. The benchmark index also suffered several historic daily falls in March, losing 6.2% on 9 March, 8.3% on the 16th and 7.2% on 18 March. On 12 March the ALSI closed 9.7% lower on the day – its worst daily drop since the market crash of 1997. This came as fears around COVID-19 as well as the impact of measures taken by various governments to curb the spread of the virus swept across world markets.

Although the prices of most shares declined in the wake of the virus effect – and a long-expected downgrade by Moody's – a few shares did post gains. Mining Group Assore's share price soared 71.4% MoM, making it March's best-performing share. The rocketing share price was due to the company announcing plans to buy out its minority shareholders and then de-list the Group from the JSE after 70 years. In second spot, Patrice Motsepe's investment holding company, African Rainbow Capital Investments (ARC), surged 25.3% MoM. ARC was followed by Dis-Chem in third position with a gain of 22.6%. Retailers have been benefitting from consumers stocking-up on essential goods, with the share prices of companies such as Dis-Chem, Tiger Brands (+22.2% MoM), Pick 'n Pay and Clicks rising.

PROPERTY SHARES BATTERED

Five out of the ten worst-performing shares in March were property companies. The dire local economic outlook had already impacted property share prices hard when COVID-19 hit, but the sector is now in crisis. Sasol was March's worst-performing share – down 80.1% MoM. The share price recorded major losses on the back of a plummeting oil price and a worsening of the novel coronavirus. In addition to pressuring Sasol's earnings, the low oil price places significant pressure on its already strained balance sheet. Nampak (-69.7% MoM) was March's second worst-performing share. The co-owner of Fourways Mall, SA's largest shopping centre, Accelerate Property Fund lost 68.1% MoM, coming in third among last month's worst-performing shares. Accelerate said in a trading update that it has been forced to reduce rentals or even offer rent-free periods as shop owners battle with subdued consumer sentiment and load-shedding.

LOCKDOWN ANNOUNCED, RECESSION CONFIRMED

On 23 March, President Cyril Ramaphosa announced that SA will enter a nationwide lockdown for 21 days (from midnight 26 March) in a televised address to the nation. This proactive move by government, to curb the rapid spread of the virus, was widely praised. While government's approach and handling of the situation was commendable it couldn't have come at a worse time for SA's crippled economy. GDP data for the 4th quarter showed that the local economy shrank by 1.4% year on year, leading SA into a technical recession over the period (it follows a 0.8% revised GDP decline in the 3rd quarter). To make matters worse, rating agency Moody's cut SA's sovereign credit rating to sub-investment grade (or junk) status with a negative outlook, on the day the lockdown took effect. SA is now junk rated by all three major rating agencies.

Looking at local economic data, annual consumer price inflation (CPI) advanced for a third month running, coming in at 4.6% in February (vs January's 4.5%) and edging just above the SA Reserve Bank's (SARB's) monetary policy target range. The SARB's Monetary Policy Committee cut the repo rate by 100 basis points to 5.25% in response to the COVID-19 pandemic, and to bring relief to consumers.

BUSINESS SENTIMENT LOWEST IN TWO DECADES

South African business sentiment plunged to the lowest level in more than two decades in the first quarter and could weaken even further as the coronavirus hits the domestic and global economy.

A quarterly gauge measuring business confidence fell to 18 from 26 in the three months ended December, according to the latest report of RMB/ Stellenbosch University Bureau for Economic Research. That means more than eight out of every 10 respondents are unhappy with current business conditions. The survey was based on the responses of 1 800 business executives between February 12 and March 2. The survey was done before the recession news and before the impact of the coronavirus on global output and markets intensified. It is generally accepted that business sentiment could become even worse and weigh on economic growth.

The overall poor business environment also impacted vehicle sales and the industry saw a 29.7% decline in sales from 2019, having decreased by 14 150 units year-on-year to 33 545. The National Association of Automobile Manufacturers of South Africa (Naamsa) said in a statement South Africa was facing an "unprecedented" struggle, with countries all over the world faced similar challenges as lockdown strategies were implemented.

Sources: Anchor Capital, News24, BusinessInsider

BRENTHURST TEAM ACTIVELY FOLLOWING MARKET MOVEMENTS

All Brenthurst Wealth advisors as well as the investment committee are monitoring market movements locally and globally and are also actively reviewing all funds utilised for client portfolios. The team is operating remotely during the lockdown and can be contacted on email.

REVIEW FINANCES DURING LOCKDOWN

If you have more time available during the lockdown due to reduced business activity this presents an ideal time to review all matters related to your finances. Is your will up to date? Is your risk cover still relevant for your needs? Remember it is prudent to update your financial plan as your circumstances change. Also, if you missed any of the insights or comments by our team and now have the time to read it, find it here: Investment Reports

Please do not hesitate to contact any one of our 14 highly qualified financial advisors at our office countrywide.

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