

# COVID -19 BULLETIN: PART 2

## MARKET SELL-OFF: IS IT TIME TO INVEST?

Since my last bulletin on 19 March 2020, the COVID-19 pandemic has entrenched itself worldwide. We are now feeling it personally and the fear is real. It has only been 26 days since the market started its real dramatic sell-off, yet it feels like a year!

The key question that my Investment Committee is constantly assessing - Is it the opportune time to invest? In light of the constant bad news about the virus, it's incredibly difficult to even entertain this question. Yet, we know it's the right question to ask, and thus we refocus each day, looking for signs, assessing the influence of the positive factors versus the negative factors.

### A: POSITIVE FACTORS - SUPPORT FOR A MARKET REBOUND

COUNTRY	GOVERNMENT STIMULUS (FISCAL/MONETARY)
<b>USA</b> 	<ul style="list-style-type: none"> <li>Interest Rates effectively slashed to zero</li> <li><b>USD 2 trillion</b> rescue package - largest economic stimulus in modern history</li> <li>Government plans to send direct payments (\$1200) to taxpayers, provide financial aid to hard-hit industries (Airlines) and increase unemployment benefits substantially</li> </ul>
<b>UK</b> 	<ul style="list-style-type: none"> <li><b>GBP 350 billion</b> economic stimulus package to combat the virus</li> <li>Two interest rate cuts this year and currently at record low of 0.1%</li> <li>Corporate tax cuts and payment deferral</li> </ul>
<b>ECB</b> 	<ul style="list-style-type: none"> <li>Interest Rate cuts and <b>1.1 trillion Euro</b> asset repurchase programme</li> <li>Suspension of limits on EU government borrowing</li> </ul>
<b>JAPAN</b> 	<ul style="list-style-type: none"> <li><b>446 billion Japanese Yen</b> emergency stimulus package aimed to enhance the health care system &amp; aid households</li> <li>A targeted liquidity provision to Japanese government bond purchases and capital injection in markets</li> </ul>
<b>CHINA</b> 	<ul style="list-style-type: none"> <li>The People's Bank of China (PBOC) implemented interest rate cuts</li> <li>The PBOC released 550 billion yuan by reducing Bank's cash reserve requirement</li> <li><b>2.8 trillion Yuan</b> stimulus package on local government bond repurchases &amp; infrastructure investment</li> </ul>
<b>INDIA</b> 	<ul style="list-style-type: none"> <li>An economic stimulus package worth <b>1.7 trillion rupees</b> to assist food security measures &amp; direct cash transfers to households.</li> <li>Government to provide medical insurance cover of 5 million rupees per person for front-line workers in the Covid-19 outbreak</li> </ul>
<b>SOUTH AFRICA</b> 	<ul style="list-style-type: none"> <li>Interest Rate Cut by 1%</li> <li>Reserve Bank implements Quantitative Easing Program to boost liquidity in financial system by repurchasing bonds</li> </ul>

The purpose of the stimulus cited above is to keep businesses in business and people with jobs and money, to bridge the time period it takes to bring the virus under control.

WILL IT BE ENOUGH?

## A: POSITIVE FACTORS (CONT...)

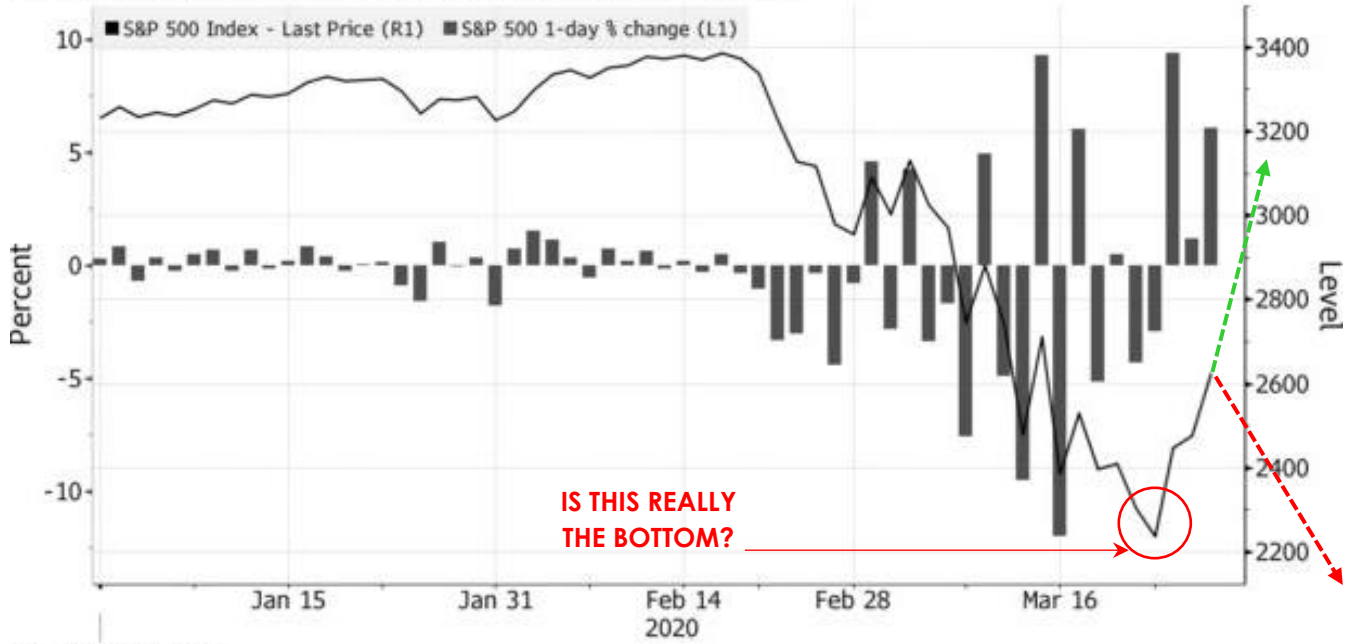
- More Governments are imposing lockdowns, a serious action to stop the spread
- Market sell-off has been indiscriminate and pockets of opportunity are showing up
- Clinical trials on vaccines and research to find a cure is taking place at an unprecedented rate worldwide (China, USA, Canada, and France etc.) There are currently 35 companies and academic institutions racing to find the vaccine. There is a lot of concentrated money behind this
- Markets are **forward looking by 6-12 months**. The rebound will happen now, if there is light at the end of the tunnel for the 2021 earnings of companies and GDP growth

## B: NEGATIVE FACTORS - RISK OF FURTHER DOWNSIDE IN MARKETS

This is a biological agent which is unpredictable, and thus the following could unfold:

- ❖ Second wave of infections after lockdown
- ❖ Mutation of the virus to become more pathogenic (more deadly and more contagious)
- ❖ A second set of lockdowns or extension of lock down periods
- ❖ The longer the lockdown, the more chance of bankruptcies of real businesses
- ❖ Prolonged lockdown and/or increases in active COVID-19 infections can lead to an economic depression
- ❖ The stimulus good news is already priced in, resulting in the bounce. Any negative news could erase these short-term gains.

## Quick to Fall, Quick to Rise S&P 500 posts best three-day streak since 1930s



Over the next 1-3 months, will the positive factors outweigh the negative?  
Will investors experience the red line, or the green line?

## E: IS IT TIME TO INVEST? DEPLOYMENT OF CAPITAL STRATEGY

Considering positive and negative factors cited above, one can understand that the answer is not straightforward. The recent bounce in the market (23<sup>rd</sup> to 26<sup>th</sup> March 2020) is based on the current positive factors outweighing the negative factors.

However, there is no doubt that serious thought has to be applied to entering the market, as the opportunity is compelling and cannot be ignored.

The Investment Committee of PWM suggests the following deployment strategy to take advantage of current market prices, whilst protecting against further downside: A phased in approach, tailor making deployment to suit the unique risk appetite of each investor, is prudent and sensible. Based on this principle, we present a generic table outlining the principles of deployment for 3 typical investor profiles in Table A (Local) and Table B (International).

**TABLE A: LOCAL STRATEGY**

<b>TABLE A: LOCAL STRATEGY</b>			<b>INVESTOR TYPE / PROFILE</b>		
<b>PHASE</b>	<b>REVIEW FREQUENCY</b>	<b>TIMING</b>	<b>OPPORTUNISTIC</b>	<b>CALCULATED RISK-TAKER</b>	<b>CAUTIOUS CAPITAL PRESERVER</b>
<b>PHASE 1</b>	Now	April 2020	Hedge Funds Equity Funds	Hedge Funds Bond Funds	Bond Funds Credit Funds Hedge Funds
<b>PHASE 2</b>	April onwards weekly	TBC	Structured Prod Equity Funds Hedge Funds	Structured Prod Equity Funds Hedge Funds	Hedge Funds Structured Prod Diversified Fund
<b>PHASE 3</b>	May onwards weekly	TBC	Equity Funds	Equity Funds	Equity Funds Structured Prod
<b>PHASE 4</b>	June onwards weekly	TBC	N/A	N/A	Equities Funds

**TABLE B: INTERNATIONAL STRATEGY**

<b>TABLE B: INTERNATIONAL STRATEGY</b>			<b>INVESTOR TYPE / PROFILE</b>		
<b>PHASE</b>	<b>REVIEW FREQUENCY</b>	<b>TIMING</b>	<b>OPPORTUNISTIC</b>	<b>CALCULATED RISK-TAKER</b>	<b>CAUTIOUS CAPITAL PRESERVER</b>
<b>PHASE 1</b>	Now	April 2020	Equity Funds Structured Prod.	Structured Product	Income Funds Bond Funds
<b>PHASE 2</b>	April onwards weekly	TBC	Equity Funds Select Equities Structured Prod.	Diversified Fund Equity Funds	Diversified Fund Structured Prod.
<b>PHASE 3</b>	May onwards weekly	TBC	Equity Funds Select Equities	Equity Funds	Diversified Fund Structured Prod.
<b>PHASE 4</b>	June onwards weekly	TBC	N/A	N/A	Equity Fund Select Equities

The phasing in strategy will result in averaging the investor into whatever market suits their profile, as all assets have lost value and even conservative assets can be accessed at lower prices.

Thus, if after phase 1, the market goes lower, Phase 2, 3 and 4 can be accessed at lower prices. If on the other hand the market goes up and stays up – Phase 2, 3 and 4 will be accessed at higher values, however averaging will still provide a reasonable return from these levels.

## F: FINAL REMARKS

With interest rates falling to zero or below zero in offshore markets, asset prices have a tailwind after COVID 19 is behind us. With the inflow of huge stimulus, the probability of asset prices reflating is high.

Thus, every client should at least **consider** a deployment strategy that suits their profile, objectives and financial circumstances. These kinds of sell-offs are once in generation and thus, the opportunity has to be looked at straight in the eye, without fear.

Please contact me directly on 083 415 4860 should you need to discuss.



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