PRIVATECLIENT HOLDINGS

# Perspectives | Monthly Market Review

May 2020

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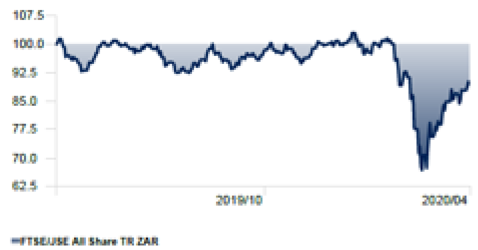
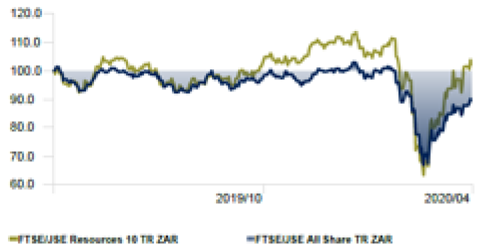
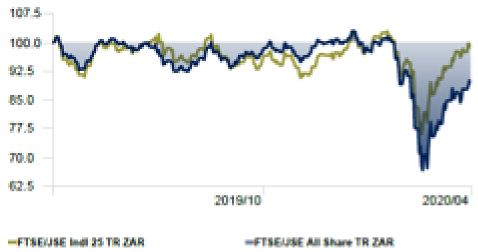
### All Share



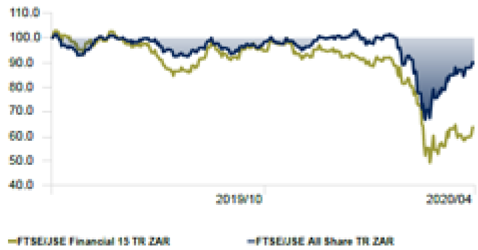

### Resources




### Industrials




### Financials




| Index | Value | Apr (%) | YTD (%) |
|---|---|---|---|
| All Share | 50,337 | ▲ 14.0% | ▼ 10.4% |
| S&P 500 | 2,912 | ▲ 12.8% | ▼ 9.3% |
| FTSE 100 | 5,901 | ▲ 3.9% | ▼ 20.9% |
| Rand/USD | 18.37 | ▲ 2.8% | ▲ 31.3% |
| Rand/GBP | 23.16 | ▲ 4.6% | ▲ 25.0% |
| Gold ($) | 1,684 | ▲ 6.4% | ▲ 10.8% |
| Plat ($) | 810 | ▲ 11.7% | ▼ 16.7% |
| Brent ($) | 25 | ▲ 11.1% | ▼ 61.7% |

## Market Report

### The world in recession

The world has changed dramatically in a little over three months. A rare disaster, the COVID-19 pandemic, has resulted in a tragically large number of human lives being lost. As countries implement necessary quarantines and social distancing practices to contain the pandemic, the world has been put in “a Great Lockdown”. The extent and speed of collapse in activity that has followed is unlike anything experienced in our lifetimes.

In its latest update, the IMF’s World Economic Outlook report depicted a bleak assessment of the world economy, projecting a 3% full-year contraction in global growth. Some estimates say this will be the worst recession since the Great Depression of the 1930’s and far worse than the 2008 GFC. The IMF forecasts that the global economy will be USD9tn smaller as a result of the pandemic, greater than the economies of Japan and Germany, combined. This is the first time since the Great Depression that both developed and emerging-market (EM) economies are in contraction. It also expects a sharp rebound in 2021, with growth of 5.8% projected, if the COVID-19 pandemic fades in 2H20.

This recovery will depend on substantial fiscal and monetary support to countries worst hit by the virus. The IMF expects the economies of 9/10 countries to contract this year. It has deployed a USD1tn lending capacity to countries requiring financial support, while it has called upon governments, creditors and multilateral institutions to work together to ensure the world does not de-globalise once the crisis has ended.

China’s growth is projected at 1.2% and 9.2% YoY in 2020 and 2021, respectively. Meanwhile, the UK is expected to record a 6.5% YoY growth slump for 2020, followed by a 4.0% YoY rebound in 2021. Similarly, for Europe, euro area GDP growth is forecast to contract by 7.5% this year and then to rebound by 4.7% in 2021. For the US, which has (along with Spain, Italy, and France) been especially hard hit by the pandemic, GDP is forecast to decline 5.9% this year and then grow by 4.7% in 2021. The IMF has also explored an alternative scenario – if the pandemic does not ease in 2H20, this may lead to longer containment periods, worsening financial conditions and a breakdown in global supply chains; global GDP could then contract by a further 3%, with a cumulative 8% reduction in global GDP relative to its baseline scenario above. Due to increased fiscal stimulus, it expects debt levels to rise in 2020. However, as long as interest rates remain low and the post-crisis recovery materialises, reducing the global debt load after 2021 would be possible.

### The president’s R500bn fiscal support package

Similar to the rest of the world, SA’s economy will experience a significant contraction as a result of the lockdown-induced decline in production in 2020. Unfortunately, despite the complete lockdown ending, much economic damage has already been done. With the onset of COVID-19 in February, it was evident that South Africa and the world would receive a massive disruption in growth. In early March, before the President announced the lockdown, the reserve bank had lowered their GDP growth forecasts to -0.2% from 1.2% in January. This considered mainly the negative trade shock but did not include a full-scale lockdown of the economy. Now, with the country having experienced five weeks of total lockdown and then a staggered, risk-adjusted opening of the economy, the Reserve Bank has revised their forecasts to -6.1% y/y in 2020. However, it notes significant uncertainty in its forecasts amid the current crisis.

Household consumption of durable goods as well as net investment, especially by the private sector, is set to deteriorate dramatically. The services sector is likely to hold up the best, in relative terms. There are still significant downside risks to these estimates, particularly if the risk- adjusted reopening of the economy takes longer than expected, or worse still, if the country returns to stage 5 restrictions for a longer period of time.

The macroeconomic and institutional strength downgrading by the rating agencies will lead the country to borrow more with higher interest rates and fixed exchange rates. S&P expects the weaker economic environment (with a 4.5% GDP contraction forecast in 2020) to weigh heavily on government revenue, resulting in a budget deficit of 13.8% of GDP in 2020, with net debt above 75% of GDP before the end of 2020 and the Budget Speech fiscal allocation will require an additional 10% leading us to a government debt to GDP ratio of 85%. Immediate and stern structural reform including privatisation and support from the IMF and World Bank will be needed to redress this eruption in debt. President Ramaphosa's fiscal support package is designed to soften the economic impact of the corona crisis in South Africa.

The package totals R500bn (10% of GDP), consisting of:

- R130bn (2.6% of GDP) reallocation of existing expenditure targeted at the health and social sector.
- R20bn (0.4% of GDP) of new allocations for municipal and local government to cover a revenue shortfall.
- R50bn (1% of GDP) for a 6-month COVID-19 social grant.
- R100bn (2% of GDP) for job protection and employment creation measures.
- R200bn (4% of GDP) for a loan guarantee scheme to support private sector liquidity; and
- Tax deferrals that will allow individuals and businesses to re-profile roughly R70bn in tax liabilities for several months.

The direct budgetary impact of the new measures on the central fiscus totals R170bn (3.4% of GDP) in new expenditure, being the sum of the R20bn + R50bn + R100bn amounts above. "Normal" revenue collections will also be reduced by the R70bn tax deferrals. The R170bn plus the tax deferral of R70bn will be funded from a range of sources including increased local issuance, utilising funds in the UIF and from foreign loans. The additional R200bn credit guarantee scheme will constitute a contingent liability and will not immediately affect the official public debt book. On the revenue line, the tax deferrals will reduce the government collections although the term of these are unknown.

**SA's fight for survival**

COVID-19 has hit the global economy hard. However, the difference we as South Africans face compared to some is that our country was already in a recession before the pandemic hit and COVID-19's effect has made our fiscal situation far worse. Nevertheless, while it is harsh to attach anything positive to a pandemic which has killed so many people, it is still important to highlight what our government, our president and all South Africans have done right during this trying time.

In contrast to government's opaque responses during SA's past crises (AIDS denialism, corruption and looting during the Zuma years, Expropriation Without Compensation, etc.), President Cyril Ramaphosa's administration seems to have taken the lead in the battle against COVID-19 in a clear and solemn manner. The president himself has cut the figure of a consultative, albeit decisive, leader who comes across as being empathetic to the country's citizens. So far, the early interventions by Ramaphosa's administration and especially the Health Minister's handling of the crisis should be applauded. There have been slip-ups, from certain members of Ramaphosa's cabinet, but all in all, SA government's interventions have been carefully thought out, especially in light of the fact that we are flying blind in the current situation.

In an effort to fight the impact of the virus, Ramaphosa's administration also unveiled several fiscal interventions to combat the effects of COVID-19, including a R500bn stimulus package to boost SA's fragile economy and to support those who have been worst affected by the pandemic. The plan follows broad deliberations between government and stakeholders including the National Coronavirus Command Council, the President's Coordinating Council, and the National Economic Development and Labour Council (Nedlac), amongst others. Ramaphosa's cabinet will each take a one third salary cut, while many corporates and individuals have contributed to the Solidarity Fund. Some South African's and community run organisations have taken it upon themselves to provide support where they see the most need.

To a large degree, COVID-19 has given Ramaphosa and his Finance Minister Tito Mboweni the opportunity to put in place certain reforms which they may not have been able to push through parliament under normal circumstances. President Ramaphosa's economic recovery plan, which forms part of government's response to COVID-19 has been widely commended by many business and political leaders and is seen by many analysts as an opportunity to fundamentally change the economy, in so doing creating greater equality by speeding up government spending on service delivery, while at the same time trying to keep businesses from sinking. Reviving the SA economy will require reflection on what public sector, private sector and individuals can do and from what we have witnessed thus far in times of crisis or adversity, South Africans always seem to come together to fight a common enemy.

## Company Results

**Standard Bank Group Ltd. – Final results for the year ending December 2019**

| | |
|---|---|
| Earnings per share | R15.85 |
| Historical PE | 10.6 |
| EPS growth | -7.1% |
| Turnover growth | 24.8% |
| ROE | 16.8% |
| Debt/Equity | 90.3% |
| NAV per share | R107.42 |
| Dividend yield | 5.9% |
| Share price | R168.32 |

### Nature of Business

Standard Bank Group Ltd. is a holding company, which engages in the business of providing banking and financial services. The firm offers transactional banking, saving, borrowing, lending, investment, insurance, risk management, wealth management, and advisory services. It operates through the following business units: Personal and Business Banking; Corporate and Investment Banking; Central and Other; Banking Activities; Other Banking Interests; and Liberty. The Personal and Business Banking business unit offers banking and other financial services to individual customers and small to medium sized enterprises. The Corporate and Investment Banking business unit provides corporate and investment banking services to governments, parastatals, larger corporate, financial institutions, and international counterparties. The company was founded in 1969 and is headquartered in Johannesburg, South Africa.

### Latest Results

Standard Bank Group's results for the 2019 financial year (FY19) are underpinned by the growth and resilience of its core operations. The constrained macroeconomic environment, particularly in South Africa, and ICBCS losses impacted the group's results. The group's banking operations reported headline earnings up 5% on the prior year (FY18) to R27.2 billion and a return on equity (ROE) of 16.8%. This result was driven by quality top line growth and continued positive operating leverage.

While Liberty contributed positively to group earnings growth, the group's other banking interests were a drag. Group headline earnings were R28.2 billion, an increase of 1% on FY18, and ROE was 16.8%. The group's capital position remained strong, with a common equity tier 1 capital adequacy (CET1) ratio of 14.0%. Good balance sheet growth underpinned net interest income (NII), while non-interest revenue (NIR) was supported by growth in transaction volumes and trading revenues. Credit impairment charges increased off a low base in the prior year. A strong focus on cost containment continued throughout the year resulting in below inflation cost growth and positive jaws of 113 basis points (bps).

### Dividend

A final dividend of 540 cents per share has been declared. Total dividends for the year were 2% higher than the prior year.

## Facebook, Inc. – Interim results for the quarter ending March 2020

| | |
|---|---|
| Earnings per share | $1.71 |
| Historical PE | 22.9 |
| EPS growth | 101.9% |
| Turnover growth | 17.6% |
| ROE | 21.9% |
| Debt/Equity | 10.3% |
| NAV per share | $30.04 |
| Dividend yield | 0% |
| Share price | $166.80 |


### Nature of Business

Facebook, Inc. operates as a social networking company worldwide. The company engages in the development of social media applications for people to connect through mobile devices, personal computers, and other surfaces. It enables users to share opinions, ideas, photos, videos, and other activities online. The firm's products include Facebook, Instagram, Messenger, WhatsApp, and Oculus. The company was founded by Mark Elliot Zuckerberg, Dustin Moskovitz, Chris R. Hughes, Andrew McCollum, and Eduardo P. Saverin on February 4, 2004 and is headquartered in Menlo Park, CA.

### Latest Results

Revenue was $70.70 billion, up 27% year-over-year, and advertising revenue was $69.66 billion, up 27% year-over-year. Total costs and expenses were $46.71 billion. Income from operations was $23.99 billion and operating margin was 34%. Net income was $18.48 billion with diluted earnings per share of $6.43. Capital expenditures, including principal payments on finance leases, were $15.65 billion. Facebook has been impacted by the COVID-19 pandemic and, like all companies, are facing a period of unprecedented uncertainty in their business outlook. Management expects the business performance will be impacted by issues beyond their control, including the duration and efficacy of shelter-in-place orders, the effectiveness of economic stimuli around the world, and the fluctuations of currencies relative to the U.S. dollar.

In the first three months of the year, Facebook netted $17.74 billion in revenue, up 18% year-over-year, though it says it experienced a significant reduction in the demand for advertising, as well as a related decline in the pricing of ads, over the last three weeks of the first quarter of 2020.

### Dividend

Dividends have become much more commonplace in the technology sector in recent years. Facebook does not yet pay a dividend, but investors should see a dividend pay-out announced in the coming years.

## Snippets

### Why an AMC is a tax efficient investment vehicle in COVID-19 bear market?

Many South African investors have done well to externalise funds, and many more are realising the need to invest offshore to mitigate the higher risks associated with local investment variants. The reasons for diversification offshore have been well documented. But what are the most tax efficient vehicles for offshore investing?

According to Private Client Holdings wealth manager Mark MacSymon, ZAR feeder funds and asset swaps do provide opportunities to gain offshore exposure, however, recently the use of ACTIVELY MANAGED CERTIFICATES (AMC's) have become attractive for a number of reasons.

"The benefits have several notable points of appeal as they give the investor the ability to access offshore companies and growth strategies without the need to expatriate funds for foreign investment purposes. This removes the reliance on JSE Listed Exchange Traded Funds (ETFs) to gain offshore exposure through a local segregated investment account. In addition, an investors offshore allowance is not utilised as the AMC is a South African Rand denominated inward listed security which makes it a tax efficient vehicle where portfolio rebalances/reallocations do not create a taxable event," says MacSymon.

"Local investors can access and benefit from the performance of the global investment portfolio through the use of an AMC (like the PrivateClient Global Growth Portfolio) rather than a vanilla index tracking ETF. These portfolios aim to optimize risk-adjusted returns by diversifying across a number of asset classes, including Equity, Alternatives, Listed Property and Fixed Income."

**This kind of investment is suitable for the following investors:**

- Trusts and Companies.
- Those seeking exposure to a global growth portfolio but have either utilised their annual offshore allowance or have SARB approval issues.
- Those who would like to replace the use of locally listed offshore passive ETF strategies with an actively managed equity instrument.
- Investors that are able to withstand some market and currency volatility in pursuit of enhanced dollar returns over the medium to long-term.
- Investors who are comfortable with some of the volatility associated with equity and have a moderate to high tolerance toward risk.

The AMC has proven to be a robust strategy in the current Covid-19 bear market as the fall off in global assets prices is mitigated by the Rand depreciation. The combination of this shock absorber together with the quality of assets which underpin the AMC have resulted in a strategy which has appreciated in ZAR through this health and economic crisis.

*For further advice or information contact any of the PCH wealth managers on 021 671 1220.*

## Corporate Cash Manager Rates

| FUND | BALANCE | RATE |
|---|---|---|
| CALL ACCOUNT | 0.00 – 9 999.99 | 3.90 |
| | 10 000 – 24 999.99 | 3.90 |
| | 25 000 – 49 999.99 | 3.90 |
| | 50 000 – 99 999.99 | 3.90 |
| | 100 000 – 249 999.99 | 3.90 |
| CALL MONEY FUND: *Individuals* | 250 000 – 999 999.99 | 6.05 |
| | 1 000 000 – 9 999 999.99 | 6.05 |
| | 10 000 000 upwards | 6.05 |
| CALL MONEY FUND: *Non-Individuals* | 250 000 – 999 999.99 | 5.85 |
| | 1 000 000 – 9 999 999.99 | 5.85 |
| | 10 000 000 upwards | 5.85 |

## Dividends Payable

| Dividends in LDT order | | | | | |
|---|---|---|---|---|---|
| **Company** | **Decl** | **LDT** | **Pay** | **Amt** | **Curr** |
| Exchange Traded Funds (ASHGLOEQT) | 08 May | 12 May | 18 May | 23.74 | ZARc |
| Exchange Traded Funds (ASHGLOBND) | 08 May | 12 May | 18 May | 4.12 | ZARc |
| PSG Group Ltd. (PSG) | 23 Apr | 12 May | 18 May | 75.00 | ZARc |
| Vivo Energy plc (VIVO) | 04 Mar | 12 May | 08 Jun | 2.65 | USDc |
| Atlantic Leaf Properties Ltd. (ATLEAF) | 28 Apr | 19 May | 25 May | 4.50 | GBPp |
| Equites Property Fund Ltd. (EQUITES) | 05 May | 19 May | 25 May | 76.96 | ZARc |
| Equites Property Fund Ltd. (EQUITES-A2X) | 05 May | 19 May | 25 May | 76.96 | ZARc |
| Lighthouse Capital Ltd. (LIGHTCAP) | 30 Apr | 19 May | 25 May | 1.58 | EURc |
| Investec Australia Property Fund (IAPF) | 06 May | 26 May | 12 Jun | 4.30 | AUDc |



Directors: GAJ Alexander BCom Hons (FAPM) (Tax) CA (SA) LLM / AS Ratcliffe BCom (HDip Tax) Professional Accountant (SA) CFP
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