# COVID-19: An update since our last note

Living and adapting to a fluid environment seems to be the new normal. We bring you a weekly summary of some of the key changes over the past week.

## Key market indicators (weekly movement)

| | | | |
|---|---|---|---|
| FTSE/JSE All Share TR ZAR<br>Level: 43 413.63<br>▲ 13.4% | FTSE/JSE Ind/Financials TR ZAR<br>Level: 22 287.71<br>▲7.6% | FTSE/JSE SA Industrials TR ZAR<br>Level: 66 846.76<br>▲10.4% | FTSE/JSE Fin&Ind TR ZAR<br>Level: 59496.38<br>▲10.5% |
| FTSE/JSE All Bond TR ZAR<br>Level: 629.425<br>► 0.0% | S&P 500 TR USD<br>Level: 2626.65<br>▲ 17.4% | DJ Industrial Ave TR USD<br>Level: 22327.48<br>▲ 20.1% | FTSE 100 TR GBP<br>Level: 5563.74<br>▲ 11.4% |
| Hang Seng HSI TR HKD<br>Level: 23175.11<br>▲ 6.8% | USDZAR<br>Level: 17.9368<br>▼ 0.6% | GBPZAR<br>Level: 22.2809<br>▼ 8.2% | EURZAR<br>Level: 19.8202<br>▼ 3.6% |

Data as at 30 March 2020. Measurement from Monday 23 March to Monday 30 March 2020. Percentage returns is weekly change. Source: Bloomberg.

## COVID-19 statistics for South Africa

| | | | |
|---|---|---|---|
| 39 500 tests | 1 353 positive cases | 31 recoveries | 5 deaths |

Data as at 1 April 2020. Source: https://sacoronavirus.co.za/

## Moody's downgraded South Africa's credit rating

On Friday, 27 March ratings agency Moody's Investor Services downgraded South Africa's sovereign credit rating as widely expected to Ba1. The downgrade means that South Africa's debt is no longer considered investment grade. The poor economic and fiscal outlook, structural impediments to reforms and policy measures, as well as the impact of COVID-19 on the already struggling economy, were cited as concerns. The ratings outlook remains negative, given both short- and long-term risks to the economic outlook and the risk this holds of an increasing debt burden.

### The timing of the move is not ideal

The immediate response of bond and equity markets following on the downgrade was relatively muted and the JSE ALSI had trended moderately upward following the announcement (as at 31 March). This might indicate that the downgrade had been priced in to some extent, as we had previously argued. However, the downgrade comes at a time when the COVID-19 outbreak has already seen increased volatility in both global and local markets and has caused liquidity pressures in especially the fixed income markets. It could therefore add more pressure to an already stressed environment. While South Africa will be omitted from the FTSE World Government Bond Index (WGBI) as a result of the downgrade, FTSE Russell has indicated the reweighting will only take place at the end of April due to the current exceptional market conditions.

### Removing uncertainty may be to our advantage

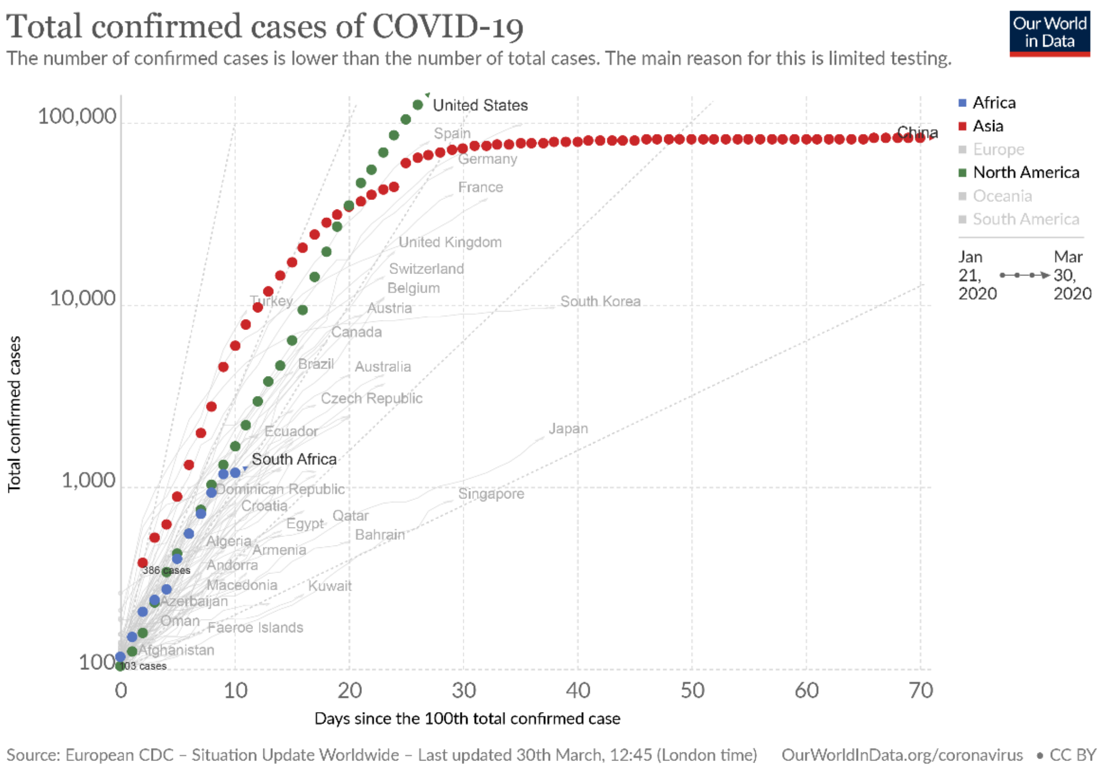
The sub-investment grade credit rating will likely increase borrowing costs and may add further pressure to an already stretched government budget if debt repayment costs rise. The pending downgrade has however been a source of concern and volatility for the past few years already, and removing this uncertainty, might give markets the opportunity to refocus on fundamentals. Other countries like Brazil experienced and exchange rate and bond market recovery after they were downgraded. Furthermore, the downgrade has already intensified the Government's resolve to institute economic reform measures. Firm policy action is essential for the recovery of South Africa's economic growth path. A more detailed FAQ document is available here.

## Our President addressed the nation

On Monday evening 30 March, President Ramaphosa addressed the nation again, announcing the roll-out of broader screening for COVID-19 cases. Government is especially concerned about the impact of the lockdown on small businesses and informal traders, and continues targeted efforts to alleviate the suffering of the most vulnerable sectors of our population. President Ramaphosa also referenced the recent Moody's downgrade and confirmed South Africa's commitment to implementing structural economic reforms, but stated that it would not limit government's response to the COVID-19 outbreak.

## Making sense of infection and death rates across countries

Many people wonder why the infection and death rates across countries seem so different. While different population sizes may be part of the puzzle, government responses to the outbreak also varies widely. Not all governments test all sick individuals or those who are at risk of infection. While Germany tests all individuals with flu-like symptoms, for example, the UK only tests those who require hospitalisation. Testing more widely can help limit the spread of the virus by quarantining carriers of the disease, especially since some infected individuals are asymptomatic. Where infection rates are underreported, death rates may appear higher than they actually are. Rather than comparing absolute numbers, experts recommend looking at the shape of the epidemic curve. The South African government is aiming to flatten the curve by limiting the rate of new infections. The graph below shows the comparative curves for the USA, China and South Africa.




Rather than focusing on absolute numbers, rather consider the shape of the epidemic curve.
Source: OurWorldInData.org/coronavirus. Data as at 30 March 2020.

## Remain alert to fake news

We remind all investors to be selective about the sources of information they trust at times like these. Always consult your financial adviser before making changes to your financial portfolio. The official government site for COVID-19 news is: https://sacoronavirus.co.za/