

## COVID-19: An update since our last note

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

### Key market indicators (weekly movement)

FTSE/JSE All Share TR ZAR Level: 51 382.1 ▲ 2.35%	FTSE/JSE Financials Index TR ZAR Level: 23 629.0 ▼ -3.64%	FTSE/JSE SA Industrials TR ZAR Level: 76 660.4 ▼ -0.42%	FTSE/JSE Fin&Ind TR ZAR Level: 11 291.8 ▼ -1.25%
FTSE/JSE All Bond TR ZAR Level: 720.3 ▲ 2.25%	S&P 500 TR USD Level: 2 930.3 ▲ 0.81%	DJ Industrial Ave TR USD Level: 24 222.0 ▲ 1.55%	FTSE: 100 TR GBP Level: 5 939.7 ▲ 1.83%
Hang Seng HSI TR HKD Level: 24 602.06 ▼ -2.71%	USD/ZAR Level: 18.42 ▲ 0.37%	GBP/ZAR Level: 22.72 ▲ 1.60%	EUR/ZAR Level: 19.91 ▼ -0.60%

Data as at 18 May 2020. Measurement from Monday 11 May to Monday 18 May 2020. Percentage returns reflect weekly change. Source: Bloomberg.

### COVID-19 statistics for South Africa

475 071 tests	16 433 positive cases	7 298 recoveries	286 deaths
---------------	-----------------------	------------------	------------

Data as at 19 May 2020, 12h00. Source: <https://sacoronavirus.co.za/>

### Join one of our webinars

PSG also keeps its clients informed via our series of insightful webinars. Please note that space is limited to the first 1 000 attendees.

Date	Time	Content	Presenter	Registration link
22 May	14h00	The COVID-19 effect - elevated risks for SMEs in a post pandemic world	Simon Colman: Managing Executive at SHA Risk Specialists	<a href="#">Click here to register</a>
25 May	14h00	The COVID-19 effect - elevated risks for SMEs in a post pandemic world	Simon Colman: Managing Executive at SHA Risk Specialists	<a href="#">Click here to register</a>
26 May	14h00	Life, death and the economy: Financial decisions in an uncertain world	Ronald King: Head of Public Policy & Regulatory Affairs, PSG Konsult	<a href="#">Click here to register</a>

### South Africa to remain at level 4 lockdown until the end of May 2020

On 13 May 2020, President Ramaphosa announced that South Africa would remain at level 4 lockdown until the end of May, at which point some (but not necessarily all) areas of the country would move to level 3. On 15 May, Health Minister Zweli Mkhize went into more detail on how the envisaged [district-based lockdown](#) will work. Following President Ramaphosa's announcement, restrictions on [e-commerce](#) were eased. All goods, except those expressly prohibited, can now be sold online. This includes items like appliances, electronics, furniture, books, gym products, all clothing and footwear products and household utensils, while the sale of alcohol and tobacco remains prohibited. Providers of e-commerce services will have to adhere to strict health and safety regulations in processing and delivering orders. Delivery services set up by spaza shops and informal traders were included in the definitions of the legislation.

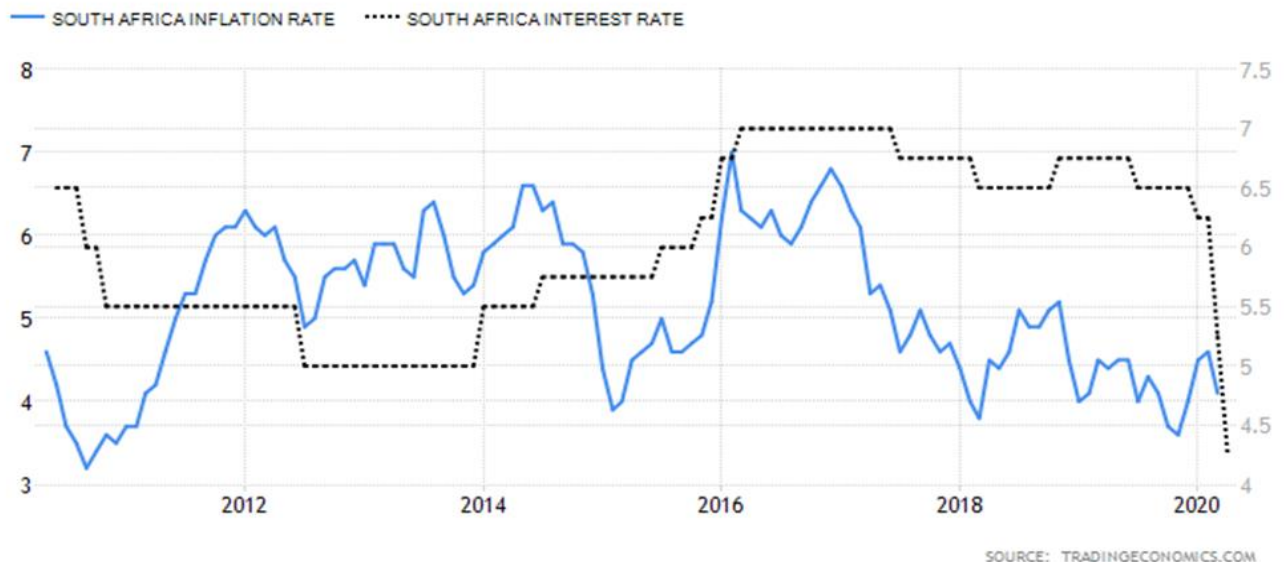
### Remarks by the Chairman of the US Federal Reserve causes renewed market jitters

Markets reacted to statements by the Chairman of the US Fed, [Jerome Powell](#), indicating that the “scope and speed of this downturn are without modern precedent, significantly worse than any recession since World War II.” He pointed out that while previous recessions had been due to imbalances in the system, the current economic malaise has been caused by steps taken to contain the spread of the virus. Powell stated that almost 40% of those in US households making less than US\$40 000 in February had lost a job in March, indicating that the pandemic is not affecting all households equally.

### More countries could embrace negative interest rates

Global central banks continue looking for ways to stimulate their economies in light of the COVID-19 pandemic. While on Wednesday last week US Fed Chairman Jerome Powell dispelled speculation that the Fed was considering [negative interest rates](#), the [Bank of England](#) Chief Economist Andrew Haldane noted that it was considering such alternative policy measures. When central banks cut rates into negative territory, savers are effectively paying banks to hold their money while it pays lenders to borrow funds. This phenomenon tends to stimulate demand for riskier assets, including equities. While interest rates in developed countries are already low, emerging market economies such as South Africa tend to have higher interest rates and more scope to reduce rates while remaining in positive nominal interest rate territory. We do, however, expect that the country may see negative real (inflation-adjusted) interest rates for the next 12 to 18 months.

Negative (nominal) interest rates in developed markets could rekindle interest in emerging markets debt. The South African Reserve Bank is holding a monetary policy meeting this week, with widely held expectations that rates will be cut again. The rates decision will be announced on Thursday 21 May.



### Scenarios for economic recovery post 2020

Concern about the likely recovery path for South Africa continues to mount, as concern grows about the impact lockdown regulations are likely to have on South Africa’s fragile economic position. [Consulting firm Deloitte previously released a study](#) that outlines different growth scenarios for South Africa and the global economy under three different scenarios (broadly corresponding to the V, W and L-shaped recoveries outlined [last week](#)). In addition to the economic recovery paths outlined, the report highlights a number of opportunities and risks for the world post 2020.

- Scenario 1: A steep but short-lived downturn**

Effective Government measures and increased testing lead us out of the crisis phase in the next few months, and a relatively fast economic recovery ensues. Global growth slows to zero in 2020, the US experiences a 5% contraction, and South Africa's GDP declines sharply followed by a gradual improvement in 2021. China's relatively quick recovery and stimulus spend increase commodity prices to SA's benefit, and equities start to rebound late 2020.

- Scenario 2: Prolonged pandemic and delayed rebound**

Waves of infection last throughout the year, resulting in a prolonged recession. Fiscal stimulus limits business failures but does not boost spending. South Africa's GDP contracts by up to 10% this year, and a gradual recovery begins in the second half of 2021. Recovery is slow in early 2022 and picks up by the second half of 2022. China's economy rebounds slower than expected, resulting in subdued commodity prices and local unemployment increases to 40%.

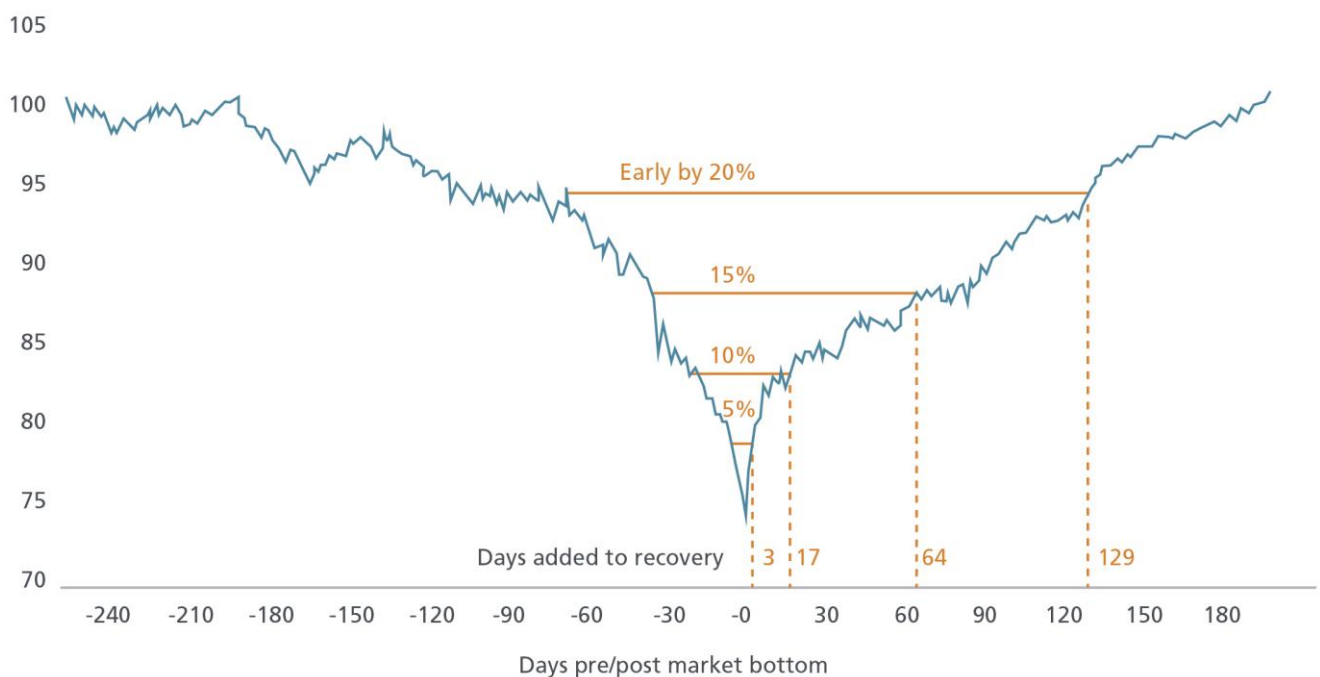
- Scenario 3: The worst-case scenario**

The virus continues to cycle the globe (and mutates) and large parts of the global economy move from recession into depression. Global economic recovery begins early 2022. The South African economy experiences continued contraction in 2021 and recovery begins mid-2022. Major global economies decline by 10% or more in real GDP. Deflation takes hold, there is a permanent negative wealth shock and SA unemployment increases to 50%.

### Does timing the bottom of the market really matter?

While investors may spend considerable time worrying about when it will be 'safe to invest' again, research has shown that the penalty of investing too early adds a relatively short period to the investor's recovery time. The graph below shows that investing 5% before the market bottom has, on average, added just three days to an investor's recovery period. Investors with the ability to enter early can take advantage of deep discounts to begin positioning themselves for a recovery. Read the full article [here](#).

#### Average bear market decline (growth of US\$100)



Sources: PSG Wealth, Bloomberg, GSAM

## Points of interest

### Economics

- [The German](#) economy declined by 2.2% for the first quarter of 2020, the biggest decline in a decade.
- Estimates released by the Australian Reserve Bank indicated it is expecting a [V-shaped recovery](#), with some commentators seeing the forecast as too optimistic.
- The [Office for Budgetary Responsibility \(OBR\)](#) of the UK stated that country's economy would likely see a slow recovery from the effects of the COVID-19 pandemic.
- [Oil prices](#) have reached a 2-month high, as Chinese demand has started to rebound.

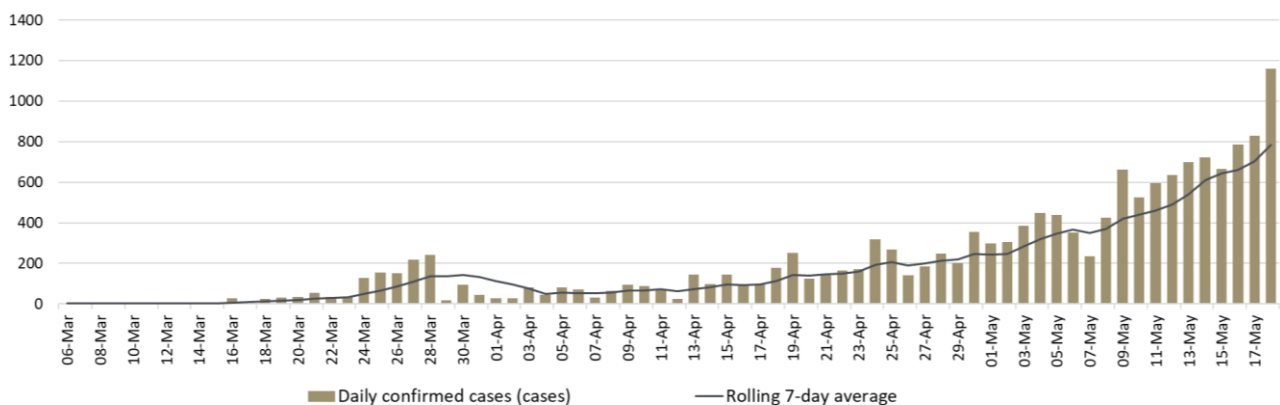
### Health

- South African COVID-19 survivors are donating blood so scientists can study whether [the convalescent plasma](#) can aid the recovery of other patients as part of a clinical trial.
- More than 140 world leaders have [signed a petition](#) calling for world leaders to unite around the provision of "people's vaccine", prioritising its development and ensuring fair access. The [health system in Brazil](#) is facing severe pressure as infections continue to mount, with hospitals in Sao Paulo at near capacity levels.
- Biotech company Moderna has reported some [promising results](#) from a small-scale phase 1 trial in developing a coronavirus vaccine that produced COVID-19 antibodies in participants.

## Concern continues to grow about developments in the Western Cape

South Africa recorded 1 160 new cases on Sunday, 17 May. According to the [Department of Health](#), the Western Cape accounts for 59.9% of total confirmed cases (as at 17 May 2020) and 76% of new cases in the reported 24-hour testing cycle were recorded in the Western Cape.

South Africa: Daily confirmed cases (cases)



Sources: Ourworldindata.org and PSG as at 18 May 2020.

## Remain focused on the long-term picture

Emotions like fear and greed tend to lead to sub-optimal decision-making, destroying value in the long run. If your portfolio is correctly structured for your needs, the best policy may be to do nothing and ride out current market volatility, which may be a feature of markets for some time to come. Being selective is key, and quality remains a crucial determinant in investment decisions. Relying on thorough analysis and trusted advice is important. Before making any investment decisions, always consult with your financial adviser, who is best placed to help you ensure that your overall financial plan stays on track. The official government site for COVID-19 news is: <https://sacoronavirus.co.za/> and our previous communication on the topic can be found at: <https://www.psg.co.za/support/faq/general/covid-19>