

The new abnormal



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Jeremy Gardiner

2020 didn't start well. January saw load shedding back, our growth forecast downgraded to 0.5%, our President under pressure, and business confidence at 35-year lows. Nobody was expecting a great 2020, but what we didn't realise then, was that it was as good as 2020 was likely to get. Can you imagine if someone had told us in January that the JSE would have its worst quarter (down 21.4%) since Bloomberg started measuring (1995), that SA GDP growth would plunge between 3-7% this year, that the Rand would almost hit R20/\$, and that we would likely be off to the World Bank for monetary help by Easter?

That was then, and this is now. We are now in a different world. A new normal, or abnormal. Hendrik du Toit, CEO of Ninety One, summed it up well recently when he said: "The impact of the virus will be temporary but it is nevertheless severe, and the reverberations will be felt for many years to come."

As of today, the virus that started in China, has hopped continents – from Asia to Australia and Europe, and then to the US. Whilst it certainly hasn't skipped Africa, we, whether through geographical distance, warmer weather, or just luck, appear to be two weeks behind the developed world, which has allowed us to act early. Whilst this will certainly help, we need extreme measures, because we are far less able than developed countries, both medically and financially, to fight this battle.

Far be it for me to pontificate about COVID-19. I am no expert. In addition, so much is still unknown, but what can we expect?

- The lockdown may last longer than 21 days. Many countries are now extending their lockdowns and when lockdown restrictions are loosened, it will only be gradual. It will be a long time before we are back to normal.
- Expect the hit on our economy to be hard, very hard. Analysts are predicting between -3% and -7% GDP decline for 2020. Fortunately, most see it recovering next year, between 3-5%.
- Get used to volatility. While nobody can call the bottom of the equity markets, the extreme selling we saw 10 days ago, when the ALSI hit 37000, was apparently, at least in the US markets, exaggerated by leveraged players cutting positions. \$7 trillion was wiped off global equity markets since the selloff began. Thus far, this has been the fastest selloff since the Great Depression.

- Expect our number of infections and deaths to increase significantly. We, like the rest of the world, and even more so, do not have anywhere near the potentially required ICU beds and ventilators that would be necessary should our numbers rise unchecked. The problem is compounded by the fact that COVID-19 patients shouldn't be housed in the same ICU wards as other patients. Medical experts predict our high-risk period to start around 8 - 10 April, at between 6-7000 infected people.
- Don't expect a vaccine anytime soon. The shortest expected timeframe by when a vaccine can be expected ranges between 12 and 18 months. Even then, it will be a while before it is produced in the requisite numbers. Of course, the Chinese may well surprise the world with one, as they probably have the ability to expedite trials. As RMB Morgan Stanley commented recently, it's over 30 years and 30 million deaths since AIDS arrived and there's still no approved vaccine.

Before you despair, Zweli Mkhize, our Health Minister, cuts a confident, calm and controlled demeanor. Apparently behind the scenes, Government and business are collaborating better than ever before. The CEOs of Discovery Health and Netcare, Jonathan Broomberg and Richard Friedland, are running the medical working group, using their connections together with Aspen executives to source medication and equipment globally, particularly ventilators, masks, gloves and testing kits. And Bidvest's logistical business is distributing it pro bono. This is the health working group, just one of 20 different working groups, all working on different challenges relating to the crisis, staffed by government and experts from the consulting companies, accounting and legal firms, banks etc.

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There's not much I can add on the issue of our downgrade, other than to say we only have ourselves to blame. Nine years of Zuma leadership, corruption and inactivity, followed by the ongoing political infighting within the ANC, ensured that necessary structural reforms were not implemented, which meant our growth collapsed, and Moody's finally gave up on us.

Bizarrely, it has taken this downgrade (plus the pressure from the virus) to focus, and the President this week announced an actual unit, even with a name, Vulindlela (**lead the way** in Zulu), which will spearhead the implementation of structural reforms. We've heard a lot on this subject, but if it takes a downgrade and a virus to actually start doing something, then that is a result indeed.

Bizarrely, Ramaphosa could well benefit from this crisis. He has shown leadership and control from the beginning, whilst his detractors have been largely silent. And in this environment, where the ongoing political squabbling seems so trivial, he can now more easily make the necessary but hard decisions, which until now he was seemingly paralysed from doing. Opposition to closing down non-performing cash hungry SOEs must surely have all but evaporated. You've also seen Government starting to push back on the public sector wage bill. There just simply isn't money to waste anymore, and these wasted funds could be far better used in fighting the virus crisis and saving lives.

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What is critical for his political future though, is that he succeeds. If we as a country manage to 'flatten the curve', limit the deaths, and ultimately, get some economic activity going, then according to analysts, he will emerge from this crisis in a far stronger position than he was at the beginning of 2020.

In summary, what is going on is severe. Probably the most severe most of us have seen and hopefully ever will see. And it's by no means over. The next 10 days will no doubt see the number of infections and deaths increase significantly. Fortunately, given the global 'lockdowns', most countries are expecting the increase rates in their infections to peak by mid-April, so by then we'll have a clearer idea about what is coming. Markets will be wild. You will see extreme selloffs, and rapid rises. Don't let your emotions dictate any investment decision making.

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While the clouds will certainly return, today for the first time, there was some light in my news feed with language I haven't seen for 3 weeks. "Investors are encouraged by a strong policy response and an apparent slowing in the rate of global infections", and from our Health Minister Mkhize, "The rate of increase is less than expected."

That may well change, and if ever there was a case of one swallow not making a summer, this is probably it. However, a ray of light is welcome, even if fleeting.

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Contact Information

36 Hans Strijdom Avenue
Foreshore, Cape Town 8001
Telephone: +27 (0)86 050 0900
Client service support: 0860 500 100
Email: comcentre@ninetyone.com

www.ninetyone.com
Follow us on Twitter @ninetyone_sa