OLDMUTUAL

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Dear Clients and Consultants

COMMENT ON CORONAVIRUS-RELATED MARKET SELL-OFF

The events of the past days are unprecedented. The Coronavirus is spreading rapidly across the globe, necessitating increasingly urgent steps from government to limit physical interaction between people. Large parts of national economies are being shut down to achieve this, and the global economy will suffer as a result. In the midst of this uncertainty and anxiety, the unexpected decision by Saudi Arabia to launch an oil price war added to further extreme financial market stress. Oil production is a capital intensive business, and therefore debt and equity capital markets are heavily exposed to it, as are many banks. Lastly, though central banks have cut rates aggressively, this is not a situation where lower interest rates makes much of a difference, and markets are crying out for substantial and targeted fiscal support measures.

In the process, investors have been dumping everything that is remotely seen as risky – equities, corporate bonds, emerging market bonds, emerging market currencies – and sought safety in developed market government bonds.

What are we doing?

- The environment is extremely uncertain and fluid and no one has clarity as to how it will play out. Though lower share prices make sense given that the global economic and profit growth outlook has changed, much of the selling is indiscriminate. We want to avoid doing the same.
- We think that significant buying opportunities will emerge both at a stock and asset class levels, but we are not going to make major changes now.
- In rand terms, global equities have held up better than local equities because the currency has declined. We are therefore trimming back from the relatively better performing global equity position and building a bit of cash to deploy later.
- SA equity has been much more exposed to the global sell-off – as is usually the case - but we have long been underweight SA equity.

What should investors be doing?

The situation is so uncertain that a strategy based on trying to predict the future is bound to get it wrong. So what to do now after the severe market declines of the past two weeks?

- Investors in retirement funds have a long-term investment horizon. While the current losses are worrying and painful, if you don't need to sell, you still own the same number of shares and bonds in your portfolio as before. They are worth much less now, but they can recover.
- Also remember that the indiscriminate selling will have pushed some investments well below their intrinsic value, creating opportunities for patient investors. We have employed active investment strategies across most of our portfolios, which gives our underlying managers the opportunity to re-position funds in more attractive opportunities as prices move on a relative basis.
- A natural response would be to reduce market exposure. However, when markets snap back, they do so quickly and without warning. By the time the panic subsides and conditions on the ground improve, it might be too late to get back in. All that is achieved then is selling low and buying high.
- Our funds are diversified and we would advise against switching.

It is likely that the threat to personal safety from the Coronavirus amplifies the anxiety of market volatility to create a climate of absolute fear for investors here and everywhere. This is understandable, but can lead to panicky financial decisions. We urge all our investors to take great care in avoiding these. We will communicate any changes we make.

Note that as a precautionary measure, several of our colleagues will be working from home as of today. We have made the necessary arrangements to ensure that everything runs smoothly from an investment and implementation point of view.

Please stay safe and healthy.

Regards

Monene Watson
Chief Investment Officer