



5th MAY 2020

Dear Fellow Investor

WHERE ARE WE NOW?

We are in local cash and shorter dated bonds. As a result we did not partake in recent stock market crashes and returned to positive +0.56%, excluding money market interest, in April. Please note that interest earned on 33% of our money, in BCI money market, will be credited after the end of every month. As money market rates drop, bonds offering higher rates become more attractive resulting in the capital appreciation of bonds. This should of course increase our investment returns.

STOCK MARKETS

As at 27 April 2020 the JSE ALSI and S+P 500 (top 500 US companies) indices were back to the levels they recorded in May 2014 and 22 Jan 2018 respectively.

THE FUTURE

It is highly unlikely that we have seen the bottom of the US and by extension global stock markets including JSE. The S+P 500 is about 57% more expensive than its long term average. At the end of the Great Recession (March 2009) it was more than 10% below its long term average i.e. cheap. At the time it offered us a significant margin of safety. Not so now.

Stock markets went from “fear mode” in March to the recent “relief rally” and are now in “frustration phase” where they do not know which way to go. Relief rallies, recovering about 50% of losses, are common. For example during the Great Recession from 8 Sept 2008, there were six such rallies averaging 13% per rally, only to hit a bottom in March 2009. Most of the rallies in 2008 like now were based on Monetary (Government) and Fiscal (Fed) stimulus optimism.

The reality that is unfolding however is that:

1. More than 30 million US workers lost their jobs over the last 6 weeks. All the jobs created since the Great Recession wiped out. Imagine the shock of workers/consumers to go from 3.6% unemployment rate, lowest in 50 years, to a very high rate. It is expected that the US unemployment rate will increase to about 20% over the next couple of months. In the Great Depression and Great Recession this rate topped 24.9% and 10% respectively.
2. Due to increasing unemployment numbers the consumer share of the US economy at about 70% is diminishing fast. Expect less spending and more savings from US households with jobs.
3. It is further expected that it will take US corporations 12 – 18 months to increase their revenues/gross income back to where they were before the crisis.

4. Dr Anthony Fauci, Director, US National Institute of Allergy and Infectious Diseases stated that he is “almost certain” that a second wave of Coronavirus will hit the US later this year. If so, it will be a repeat of what happened in 1918 when the outbreak in Jan 1918 was followed by a second wave in Oct 1918. (Spanish Flu.)

To summarise, although the JSE is cheap the S+P 500 is not. We know from history that when the US stock markets crash the impact is felt globally so we need to be conservative for now. I think Wall Street (S+P 500) needs to catch up with Main Street (realism).

Please feel free to contact me should you have any questions/comments.

Regards and Best wishes



ANTON VAN NIEKERK

B.Econ (Hons)

CEO / Chief Investment Officer

Anton Cell: 082 455 9575

www.olympiad.co.za