PRIVATECLIENT HOLDINGS

Perspectives | Monthly Market Review

April 2020

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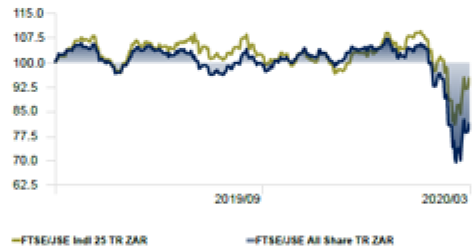
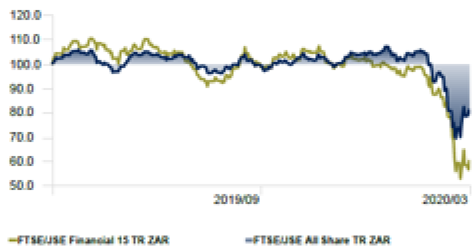
All Share

Resources

Industrials



Financials



Index	Value	Mar (%)	YTD (%)
All Share	44,490	▼ 12.1%	▼ 21.4%
S&P 500	2,585	▼ 12.4%	▼ 19.6%
FTSE 100	5,672	▼ 13.4%	▼ 23.8%
Rand/USD	17.86	▲ 13.5%	▲ 27.7%
Rand/GBP	22.15	▲ 10.2%	▲ 19.5%
Gold ($)	1,583	▲ 1.2%	▲ 4.2%
Plat ($)	724	▼ 16.0%	▼ 25.4%
Brent ($)	23	▼ 55.0%	▼ 65.5%

Market Report

COVID-19 and an oil price war lead to deep global recessions

This last month has seen a meltdown of epic proportions in economies and stock markets around the world, with extreme moves in equity and other asset prices. A director at Fidelity Investments was commenting on the state of the global economy and was quoted saying, “ We’re at the levels of ’08, of ’87 crash, 1970, even 1929, 1930,” he said, referring to the 2008 financial crisis, Black Monday in 1987, and the 1929 Great Depression. “So, you can count on one hand the amount of times that we’ve been this oversold.”

The worldwide sell-off was sparked by two black swan events – the rapidly increasing novel coronavirus infections and an unexpected attack on the oil price. These damaging effects on the global economy have reached the limit as governments implemented lockdown measures to fight the spread of the virus. While much has been written about the impact of COVID-19 and the lockdowns put in place by various governments, the fall in the oil price came after The Organization of the Petroleum Exporting Countries (OPEC), led by Saudi Arabia, met with its constituents on the 6th of March to discuss a response to plummeting oil demand and the world wide halt in non-essential travel. Unable to reach agreement with Russia around OPEC’s demand to cut 1.5million barrels of oil production a day, Saudi Arabia announced it would open the spigots and cut its oil prices by $6/bbl. This saw oil prices plunge and by the end of the month the price of Brent Crude was down 55% – its worst month since 1983.

Global inflation rates are, therefore, expected to decline sharply as energy costs fall, as can be seen locally by the R1.76 drop in petrol price. The COVID-19 pandemic has forced a complete retest of global growth forecasts amid a sharp decline in productivity as countries enforce lockdowns to try to contain the spread of the virus.

South Africa went into lockdown in March, with the President learning from other country’s mistakes and attempting to get ahead of the spread of COVID-19 and bringing large parts of an already vulnerable economy to a complete standstill. While government’s approach and handling of the situation was commendable it couldn’t have come at a worse time for SA’s crippled economy. The nationwide lockdown coincided with one of the worst periods of risk aversion for global markets as investors indiscriminately dumped risk assets. Foreigners also sold $1bn of local equities, making it 21 months of net foreign outflows over the past two years. The FTSE/JSE All Share Index fell

12% in March, completing its second-worst quarter ever – down 22.1%. Due to the SA lockdown and a sharp decline in production and consumption, it is expected that real GDP could contract by 8.8% q/q in 2Q20. The bias to this estimate is still to the downside. South Africa's Central Bank slashed its growth forecasts for the year, predicting the economy could shrink by as much as 4% during 2020 due to COVID-19, which has forced a national lockdown and triggered two credit ratings downgrades from Moody's and Fitch.

In order to curb this contraction, the SARB reduced the repo rate by 100bps to 5.25% surpassing market expectations. This was in response to severe market volatility, a slump in global and local growth, and persistent recessionary conditions locally. The substantial reduction in the repo rate is also to provide an immediate stimulus boost to households and companies, and to ease domestic financial conditions. According to the bank's calculations, last month's 100 basis point cut to lending rates had put R32 billion back into the economy. However, calls for the bank and the National Treasury to do more to support the economy have grown louder, especially with unemployment already at 30%. In the absence of any significant upside risks to inflation, and given the colossal downside risks to growth, the SARB will likely lower the repo rate by a further 50bps before the end of the year.

SA's downgrade and the rand blow out

On the 27th of March Moody's, the last of the three credit rating agencies, downgraded the South African government's credit rating to junk status from Baa3 to Ba1, with their outlook for the country remaining negative. The negative outlook horizon (12-18 months) reflects the risk that economic and fiscal metrics could deteriorate further, driven by policies being ineffective in containing the impact of the global recession on the SA economy and the lack of reform assiduity further entrenching negative economic sentiment. Losing our last investment-grade rating will mean being pulled out of the World Government Bond Index (WGBI) thus denying the investment related with that benchmark and potentially R80bn to R120bn of bonds that are likely to be sold by foreigners over the next few months. This is expected to create further selling pressure on local bonds and on the rand.

Even though Moody's gave the news late in March, South Africa experienced its biggest monthly sale of local bonds by foreigners ($3.4bn) which is a record outflow since 1994. SA's 10-year government bond yields briefly reached 12.5%, the highest level since 2002, before recovering slightly to end the month 2% higher at 11%. The relentless selling by foreign investors saw the rand reaching new record lows against the US dollar, comfortably breaching the previous low (R16.87/$) experienced in January 2016, the month after Finance Minister Nhlanhla Nene was fired. The USD/ZAR briefly broke through R19.33/$ before ending the month at R17.84/$ (down 12% for the month and 22% YTD).

The downgrade by Moody's has been anticipated for a long time and the statement they delivered was direct and pinpoint in its concerns. There were no surprises and South Africans are well aware of the issues facing the country.

Moody's has four pillars to its rating process of sovereigns, namely: economic strength, institutions and governance strength, fiscal strength, and susceptibility to event risk. The junk status was due to SA's fiscal weakness. As per the Moody's rating action: *"Debt-to-GDP increased by 10 percentage points (ppts) over 2014-18 and will rise by a further 22 ppts over 2019-23 under Moody's baseline projections. Over that timeframe, Moody's expects primary deficits to persist. The fiscal deficit will widen in fiscal 2020 to around 8.5% of GDP, as revenue declines this year, only narrowing very gradually thereafter. Fiscal strains from interest payments and support to state-owned enterprises (SOEs) will continue."*

Moody's has acknowledged that its estimates might be too conservative and, therefore, have maintained a negative outlook on the rating. In calculating its numbers, Moody's is looking at SA government debt and then adding to that the liabilities for guarantees that have been given for SOEs. The agency does not believe that SAA or Eskom are viable going concerns and therefore adds their debt to that of the government.

South Africa is in a dire need for monetary stimulus, more than the recent 1% cut in the repo rate. Some political parties are even calling for additional stimulus measures in the form of quantitative easing. The SA government has very limited scope to provide the quantum of fiscal stimulus other G20 nations have applied to soften the economic blow, though it appears that the private sector and some of SA's wealthiest will do their best to assist government with this endeavour.

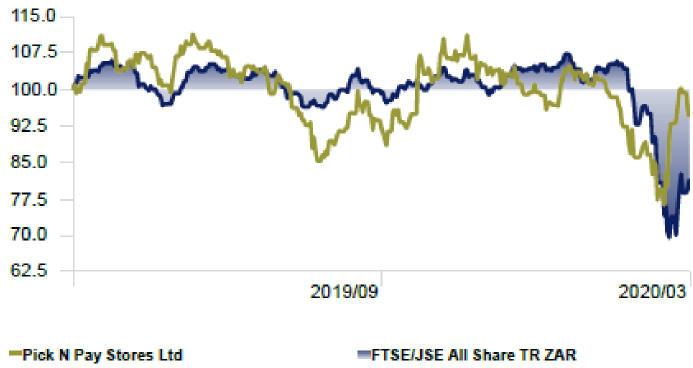
However, in Moody's assessment they claimed that: *"The SARB may further cut interest rates this year, but monetary policy easing will not address structural economic issues and will at best prevent a deeper contraction."* South Africa's problems are policy and structural, and monetary policy cannot overcome these. There is also a point where further rate cuts will do more harm than good.

It will take some time for the market to stabilise and investors who deploy new capital must be able to stomach further potential downside.

Company Results

Pick n' Pay Stores Ltd. – Interim results for the period ending September 2019

Earnings per share	R3.07
Historical PE	18.4
EPS growth	9.5%
Turnover growth	6%
ROE	36.8%
Debt/Equity	116.28%
NAV per share	R10.56
Dividend yield	4.1%
Share price	R59.54



Nature of Business

Pick n Pay Stores Ltd. operates as an investment holding company, which engages in the trading of retail food, clothing, general merchandise, pharmaceuticals, and liquor. It operates through the South Africa and Rest of Africa segments. The South Africa segment offers formats under the Pick n Pay and Boxer brands. The Rest of Africa segment is responsible for the company's expansion into the other part of Africa. The company was founded by Raymond David Ackerman in 1967 and is headquartered in Cape Town, South Africa.

Latest Results

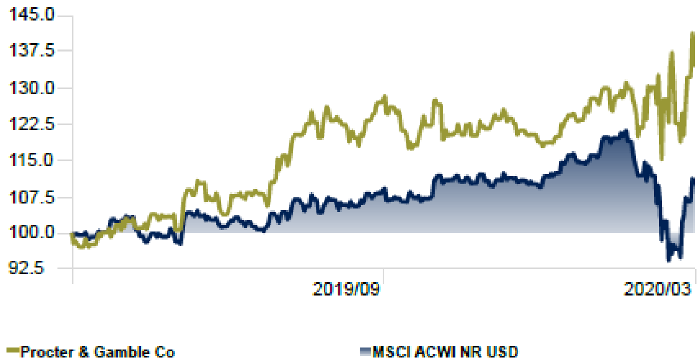
Despite a difficult trading environment inside and outside South Africa, the Group has delivered another positive performance, maintaining growth in both sales and earnings. Over a number of years, the Group has succeeded in developing much greater relevance and flexibility in its customer offer, format and operating model. An emphasis on cost discipline and greater efficiency has provided headroom for investment in price, quality and value for customers.

By following a successful long-term strategy, the Group has delivered another period of turnover growth and improved profit margins despite a difficult consumer environment. A positive performance by core South African operations resulted in overall earnings growth at Group level, despite challenges in Zambia and Zimbabwe. Comparable Group turnover growth of 6.0%, with like-for-like turnover growth of 2.9%. Stronger performances across Pick n Pay and Boxer owned and franchise formats, with an increased relative contribution from company-owned stores lifting gross profit margin to 19.8%. Strong earnings contribution from core South African business, with trading profit up 16.4%, and trading profit margin up from 2.5% to 2.8% of turnover.

Dividend
The company declared an interim dividend of 42.80 cents per share.

Procter & Gamble Co – Interim results for the period ending December 2019

Earnings per share	$1.69
Historical PE	73.8
EPS growth	15.8%
Turnover growth	5%
ROE	9.7%
Debt/Equity	63.8
NAV per share	$18.07
Dividend yield	2.4%
Share price	$124.90



Nature of Business

Procter & Gamble Co. engages in the provision of branded consumer packaged goods. It operates through the following segments: Beauty; Grooming; Health Care; Fabric & Home Care; and Baby, Feminine & Family Care. The Beauty segment offers hair, skin, and personal care. The Grooming segment comprises of shave care like female and male blades and razors, pre and post shave products, and appliances. The Health Care segment includes oral care products like toothbrushes, toothpaste, and personal health care such as gastrointestinal, rapid diagnostics, respiratory, and vitamins, minerals, and supplements. The Fabric and Home Care segment consist of fabric enhancers, laundry additives and detergents, and air, dish, and surface care. The Baby, Feminine and Family Care segment sells baby wipes, diapers, and pants, adult incontinence, feminine care, paper towels, tissues, and toilet paper. The company was founded by William Procter and James Gamble in 1837 and is headquartered in Cincinnati, OH.

Latest Results

The Procter & Gamble Company reported second quarter fiscal year 2020 net sales of $18.2 billion, an increase of five percent versus the prior year. Excluding the net impacts of foreign exchange, acquisitions and divestitures, organic sales also increased five percent. Diluted net earnings per share were $1.41, up 16% versus the prior year, driven primarily by the increase in net sales and an increase in operating margin. The company posted an impressive +16% growth in adjusted operating income in the first half of their financial year and expects to further increase EBIT by 10% for FY20.

Operating cash flow was $4.4 billion for the quarter. Free cash flow productivity was 100%. The Company returned $5.4 billion of cash to shareholders through $1.9 billion in dividend payments and $3.5 billion of common stock repurchases.

Beauty segment was the largest contributor to revenue growth with organic sales increasing 8% versus a year ago. Skin and Personal Care organic sales increased double digits driven by premium innovation and increased pricing. Hair Care organic sales increased mid-single digits driven by premium innovation, positive mix impact from the disproportionate growth of premium products and devaluation-driven price increases.

Dividend

The company declared an interim dividend of $0.7459 per share.

Snippets

PCH Business As Usual During Lockdown

We would like to remind you that PCH is fully operational during lockdown. Our entire PCH team have laptops and are set up to work from home, with access to all our programs and servers.

Our reception is operating remotely and able to take your phone calls. Our desk phones are diverted to our personal cell phones, so if you know the extension of the person you want to speak to simply dial the office landline, 021 671 1220 followed by their extension number, and you will be able to reach them. We are all available on our emails.

We are also able to connect with you in virtual meetings during lockdown using MS Teams, Zoom or Skype. Please send us a meeting request.

If you need to escalate a matter during this time, please refer the matters to:

For Wealth Management – andrew@privateclient.co.za
For Portfolio Management – grant@privateclient.co.za
For Financial Services – greg@privateclient.co.za
For Trusts/Estates/Wills – elmien@privateclient.co.za or sarah@privateclient.co.za
For CCM/Forex – sian@privateclient.co.za
For general queries – info@privateclient.co.za

Corporate Cash Manager Rates

FUND	BALANCE	RATE
CALL ACCOUNT	0.00 – 9 999.99	4.90
	10 000 – 24 999.99	4.90
	25 000 – 49 999.99	4.90
	50 000 – 99 999.99	4.90
	100 000 – 249 999.99	4.90
CALL MONEY FUND: *Individuals*	250 000 – 999 999.99	6.88
	1 000 000 – 9 999 999.99	6.88
	10 000 000 upwards	6.88
CALL MONEY FUND: *Non-Individuals*	250 000 – 999 999.99	6.68
	1 000 000 – 9 999 999.99	6.68
	10 000 000 upwards	6.68

Dividends Payable

Dividends in LDT order

Company	Decl	LDT	Pay	Amt	Curr
Sea Harvest Group Ltd. (SEAHARVST)	02 Mar	06 Apr	14 Apr	45.00	ZARc
Absa Group Ltd. (ABSA)	11 Mar	14 Apr	20 Apr	620.00	ZARc
AVI Ltd. (A-V-I)	09 Mar	14 Apr	20 Apr	160.00	ZARc
Capital & Counties Properties PLC (CAPCO)	26 Feb	14 Apr	14 May	1.00	GBPp
Exchange Traded Funds (CORESP500)	02 Apr	14 Apr	20 Apr	38.56	ZARc
Exchange Traded Funds (CSPROP)	02 Apr	14 Apr	20 Apr	20.08	ZARc
Exchange Traded Funds (CTOP50)	02 Apr	14 Apr	20 Apr	16.40	ZARc
Exchange Traded Funds (DIVTRX)	02 Apr	14 Apr	20 Apr	22.02	ZARc
Exchange Traded Funds (COREGPROP)	02 Apr	14 Apr	20 Apr	36.35	ZARc
Investec Bank Ltd. (IBRP4)	25 Mar	14 Apr	20 Apr	37086.68	ZARc
Nedbank Group Ltd. (NEDBANK)	03 Mar	14 Apr	20 Apr	695.00	ZARc
Exchange Traded Funds (PREFTRAX)	02 Apr	14 Apr	20 Apr	11.16	ZARc
Remgro Ltd. (REMGRO)	17 Mar	14 Apr	20 Apr	215.00	ZARc
Standard Bank Group Ltd. (STANBANK6.5)	05 Mar	14 Apr	20 Apr	3.25	ZARc
Standard Bank Group Ltd. (STANBANK-P)	05 Mar	14 Apr	20 Apr	389.12	ZARc
Sanlam Ltd. (SANLAM)	12 Mar	14 Apr	20 Apr	334.00	ZARc
Exchange Traded Funds (SMART)	02 Apr	14 Apr	20 Apr	29.75	ZARc
Wilson Bayly Holmes - Ovcon Ltd. (WBHO)	03 Mar	14 Apr	20 Apr	0.00	ZARc
Anchor Group Ltd. (ANCHOR)	03 Apr	21 Apr	28 Apr	7.00	ZARc
Exxaro Resources Ltd. (EXXARO)	12 Mar	21 Apr	28 Apr	566.00	ZARc
Investec Bank Ltd. (IBRPREF1)	31 Mar	21 Apr	28 Apr	1345.56	ZARc
RCL Foods Ltd. (RCL)	02 Mar	21 Apr	28 Apr	15.00	ZARc
SA Corporate Real Estate Ltd. (SA CORP)	11 Mar	21 Apr	28 Apr	17.66	ZARc
Standard Bank Group Ltd. (STANBANK)	05 Mar	21 Apr	28 Apr	540.00	ZARc
TeleMasters Holdings Ltd. (TELEMASTR)	31 Mar	21 Apr	28 Apr	1.50	ZARc
Trencor Ltd. (TRENCOR)	31 Mar	21 Apr	28 Apr	185.00	ZARc
Zeder Investments Ltd. (ZEDER)	01 Apr	21 Apr	28 Apr	230.00	ZARc

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