

# IN THE **moment**

## **We remain committed to your investment goals**

### **Addressing investor concerns**

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Things can change very quickly in financial markets. On 19 February 2020, the United States (US) equity market reached an all-time high during the bull market, which started after the global financial crisis (GFC) in March 2009. This was the second-longest bull market on record, only outlasted by the 1987 to 2000 bull market. By 12 March 2020, a mere 16 trading days later, US equities were in a bear market (defined as a fall of more than 20% from the peak), following fears of the global economic effect of the coronavirus (COVID-19).

As we anticipated in our recent note ('COVID-19: Keep calm and wash your hands', sent out on 9 March 2020), global economic growth forecasts are now being cut aggressively, as more countries are introducing isolation measures for their populations in trying to curtail the spread of COVID-19.

We understand our investors are concerned about the state of the market and what they can do to protect themselves. No doubt the biggest question on everyone's minds is how long this bear market will last and how low equity markets can go during this time? While we do not know the answers to either of these questions with any certainty, below are some beacons we can follow to guide us to a likely range of probable outcomes for markets in coming quarter:

- Firstly, as long as economic growth and corporate profit forecasts around the world are still decreasing to levels lower than those discounted by financial markets, prices

of growth asset classes like equities or property will continue to adjust downwards. At a high level, the magnitude and duration of growth decreases will be determined by the unknown severity and duration of the virus.

- Research from the Bank of America shows that bear markets linger for a while after the initial 20% drop, with further downside for about three to four months. If history is any guide, this would point to a likely bottoming in equity markets around the middle of 2020. In the interim, market volatility is likely to remain high, as the market digests the severity of COVID-19 and its negative effect on global growth and company profits.
- At the 18 March 2020 equity market close in the US, the S&P 500 Index was down 29% from its peak, which is roughly in line with the median (28%) and average (31%) drawdowns experienced in the past 25 bear markets, but still smaller than the peak-to-trough declines in the 2001 technology shares bear market (35% down) and the GFC bear market (52% down).
- For markets to bottom sustainably, there will first have to be eventual capitulation by investors once the fear stage is reached, which could still be some time away. During this phase towards capitulation, it is common for financial markets to be driven to overreaction as behavioural biases come to the surface, swept up by negative emotions and sentiment.

- Finally, due to the likely barrage of fiscal and monetary policy responses from global policy makers in reaction to COVID-19, there should be a strong lagged cyclical recovery in global growth and company profits in the

aftermath of COVID-19, with share prices discounting this beforehand. This should provide a good buying opportunity for equities and other growth asset classes at the time.

## Our outcome-based solutions

We follow an outcome-based risk-mitigated investing approach to portfolio construction. Diversification and a cautious approach to investing remains our best weapon in times like these. Although it is virtually impossible to reach real growth targets in our portfolios with the extreme market returns in the last few weeks, having had well-diversified exposure to various asset classes has helped our client portfolios experience a 'shock absorber' through difficult times. We continue to vigilantly look for opportunities to protect portfolios while still harnessing the available opportunity set towards our longer-term investment goals. We have also put hedges in place to mitigate risk, where it made sense.

The recent experience has similarities to those experienced in 2001 and 2008, albeit that the underlying cause and severity of these crashes are evidently not the same. From a portfolio management perspective, the recent sell off has been particularly severe on traditional growth asset classes, including local equity, local property and global equity. As the sell off intensified during March, we

have witnessed traditionally defensive asset classes, including local government bonds, not emerging unscathed either. History has shown that asset class returns tend to move in unison during times of extreme volatility and that is repeating itself this time around. Recent asset class returns for the year to date are tabled below with our portfolio returns.

As expected, our market-linked multi-asset-class solutions are not immune to the effects of the market sell off. However, depending on the risk profile and accompanying asset class mix, the shorter-term effect would have been dampened by as much as two-thirds as you move down the risk spectrum of the portfolio range. Risk-seeking investors in the most aggressive solutions still benefited from reduced short-term drawdowns relative to the market. The benefit of our robust portfolio construction process is clearly evident, which shows how our prudent and diverse asset allocations, investment strategies and mandate selections have protected our portfolios from the sharp drawdowns in local and global markets.

Markets (in rand terms)	Year-to-date return
FTSE/JSE All-Share Index	-32.9%
FTSE/JSE SA Property Index	-50.2%
MSCI World Index (All Countries)	-28.8%
JSE Assa All Bond Index	-11.4%
Oil	-62.4%
Rand/dollar movement	22.1%

### Multi-asset-class market-linked portfolios

Momentum Investments Enhanced 7 Factor Portfolio	-24.7%
Momentum Investments Enhanced 6 Factor Portfolio	-23.7%
Momentum Investments Enhanced 5 Factor Portfolio	-21.0%
Momentum Investments Enhanced 4 Factor Portfolio	-16.0%
Momentum Investments Enhanced 3 Factor Portfolio	-11.9%

Multi-asset-class market-linked portfolios	Year-to-date return
Momentum Investments Classic 7 Factor Portfolio	-26.6%
Momentum Investments Classic 6 Factor Portfolio	-25.5%
Momentum Investments Classic 5 Factor Portfolio	-22.2%
Momentum Investments Classic 4 Factor Portfolio	-17.4%
Momentum Investments Classic 3 Factor Portfolio	-12.7%
Momentum Investments Flexible 7 Factor Portfolio	-19.5%
Momentum Investments Flexible 6 Factor Portfolio	-19.4%
Momentum Investments Flexible 5 Factor Portfolio	-19.1%
Momentum Investments Flexible 4 Factor Portfolio	-14.3%
Momentum Investments Flexible 3 Factor Portfolio	-10.5%
Momentum Investments Target 7 Factor Portfolio	-24.5%
Momentum Investments Target 6 Factor Portfolio	-23.2%
Momentum Investments Target 5 Factor Portfolio	-20.4%
Momentum Investments Target 4 Factor Portfolio	-14.6%
Momentum Investments Target 3 Factor Portfolio	-9.6%

## Portfolio positioning and way forward

We understand clients are eager to know the portfolio positioning and what to expect going forward. We have for some time expressed our risk view in terms of specific asset classes, where we remained underweight local property relative to local equity and overweight cash relative to local inflation-linked bonds. Furthermore, we have been overweight global asset classes in the last while and have exposure to alternative asset classes in our Enhanced and Flexible Factor Portfolio Ranges. These themes continue to play out in the portfolios and we continue to hold the same view on a short- to medium-term investment horizon. We are, however, still underweight the longer-term average and strategic allocations. While valuations are improving and the investment case improves from that perspective, we are not adding to these exposures at the moment, but we have collectively rotated the equity exposure to better-quality shares, as their valuations improved and as we expect a sharper recovery in these. We have also reduced our property and inflation-linked bond exposure in the last two weeks.

In addition to the above portfolio actions, we are continually monitoring news flow and market reaction for potential dislocation, and we stand ready to act in the best interests of our clients to not only navigate the current environment, but also to position the solutions for future success.

The announcement by the South African Reserve Bank of a 100 bps (1.0%) interest rate decrease on 19 March 2020 may also usher in some relief in the markets, although this will lead to a reduction in the returns of money market portfolios. We are arguably in the eye of the storm and, while we do not know how long it will take for markets to rebound or recover from the current crises, we have witnessed time and time again that markets and asset classes have mean-reverting characteristics and investors who stay invested will benefit most staying the course of time. This is not the time to make drastic, heroic or even emotional investment decisions based on a market phenomenon that has affected all asset classes across the globe. The prospect or notion of trying to time the market is a sure way to lock in potential losses and potentially miss any rebound in investment values.

We will continue to update our clients as events unfold, but we want to assure you that we remain vigilant and responsive to market events and we will stick to our process and philosophy with diligence.

**Sonja Saunderson**

Chief Investments Officer

