



CLUCASGRAY

AM

ASSET MANAGEMENT

A juristic representative of ClucasGray (Pty) Ltd
An Authorised Financial Services Provider, FSP 21117

ClucasGray
Asset
Management

Communication
Regarding
Coronavirus



The start of the new decade have been extremely disappointing for investors, both globally and in South Africa. The developments around the Coronavirus (Covid-19) have in a matter of weeks left an indelible mark on global society. Medical advice, embraced by political and business leaders alike, has been, amongst other measures, to restrict gatherings, to isolate oneself from society, close schools and universities, encourage working from home, and prevent local and global travel. These measures are intended to contain the spread of Covid-19 and preserve the health of citizens. Whilst we applaud the decisive manner in which leaders, including our own President Ramaphosa, have acted, we have to acknowledge that the actions have come at a great economic cost. For many South Africans, the week ending 20 March 2020 is likely to be a defining week in their lives. These are indeed extraordinary times.

Governments globally have reacted to the crisis by promising significant fiscal stimulus measures to alleviate the short term pain being felt by businesses and individuals, Central Banks have lowered monetary policy where possible, and injected significant liquidity into their financial systems. The South African Reserve Bank too has cut interest rates by 1% - coupled with a material reduction pending in the price of fuel, consumers are likely to enjoy some relief. Interestingly, given a conservative approach to monetary policy over the last few years, South Africa is one of the few economies globally that has an ability to stimulate through meaningful interest rate cuts, should the need arise. Unfortunately this relief may be dwarfed by the pain felt were the current lockdown of many economies to last for any sustained length of time. We are not oblivious to these risks.

What started out as a medical crisis has, through a confluence of events, resulted in an economic and financial crisis. Monday the 16th of March saw the largest single day fall in global equity markets since October 1987 – the original and infamous Black Monday. Panic is an unfortunate, and typically costly, approach to investing.

We, like you, are extremely disappointed with the way the quarter has to date developed. We have acted decisively in a number of instances, but are mindful of the risks of overreacting – more so when valuations on many companies now rival those on offer in the depths of the Global Financial Crisis of 2008/09.

We believe the quote from Macquarie strategist Viktor Shvets is worth repeating: *“Whilst it is fruitless to try to pick the bottom, we continue to view the current rush for cash as a transient event rather than a reset of our global asset-based and financialized world. Recent monetary and fiscal responses are likely to prevent extreme outcomes.”*

As is customary, we will be sending out a quarterly investment letter during April, in which we will strive to articulate in more detail our views on the extraordinary developments, and outline our investment views and portfolio positioning.

From an operational point of view, we have taken heed of President Ramaphosa’s request to align our business approach to contain the spread of the disease and in this regard we will consider any revisions to our existing business continuity plans, if required. Should there be a need for us to self-isolate and to work from home, we are all fully geared to do so. We believe it is appropriate to minimize face to face meetings for the moment and have also decided to stop all business travel in the interim. If there is any interest in discussing our views on the current environment, or our portfolio positioning, we encourage you to contact us either via email or on our mobile numbers – see details below.

We wish you all good health, and urge calm – whilst this is different to previous crises, the market reaction has indeed been similar.

Listed below are the contact details of ClucasGray Asset Management staff:

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Please feel free to contact us at any time.

Kind regards

Andrew, Grant, Siphiwe and Megan