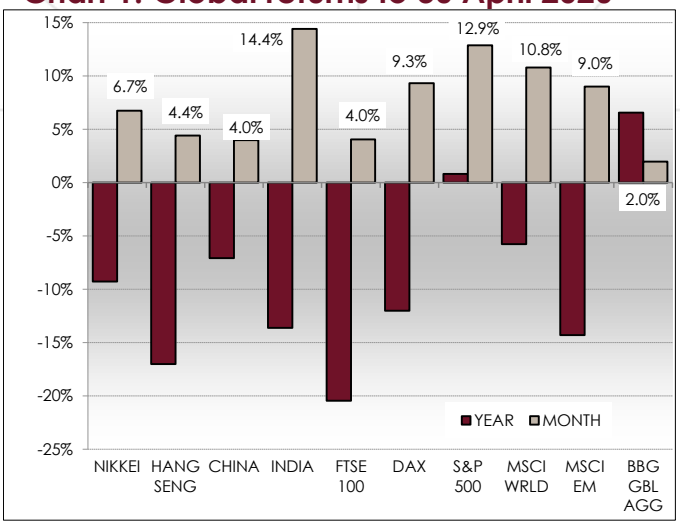
April in perspective – global markets

It is often the case that after a tumultuous decline in global equity markets one month, one experiences dramatic rises in the same markets in the subsequent month. April was no exception, although no one believes for a moment that the global energy, health, and financial crises are by any means over, or even nearing an end.

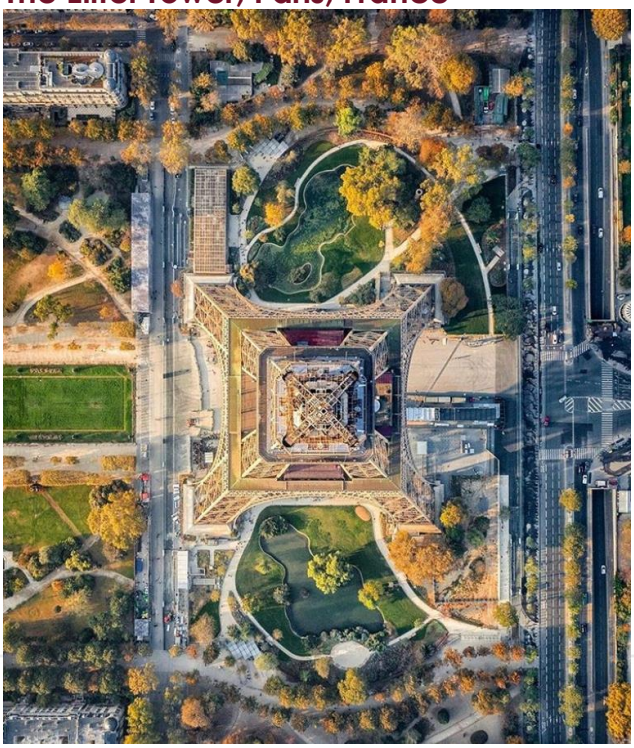
So it was that global equity markets posted their largest monthly gain since January 1987 in April, with tech giants leading the charge while other sectors, such as the tourism, airline and energy sectors, plummeted to new lows. It is very difficult to match the index gains within market conditions such as those that prevailed in April; movements are extreme and occur in selected parts of the market only. It is also not always possible, let alone desirable, to re-position portfolios for one month of performance, so it will be interesting to see how many investment managers were able to generate portfolio returns in line with major indices or even just their chosen benchmarks.

Chart 1: Global returns to 30 April 2020



As we relate the markets and sectors returns below, there is a sense of the surreal, seeing the quantum of market returns but at the same time reading of businesses and sectors going bankrupt, retrenching employees in their tens of thousands, and all the time being confined indoors, unable to move freely. But we report them for what they are, hoping that one day we will look back and make more sense of where the world currently finds itself.

The Eiffel Tower, Paris, France



Instagram handle: @dailyoverview

The MSCI World index rose 10.8% during April, while the MSCI Emerging Market index rose 9.0%. Despite these considerable gains, one gets an impression of the damage done to investors' wealth when one considers that the year-to-date gains for these indices are -13.0% and -17.0% respectively. Within developed equity markets, the US markets rose the most, up 12.9% (year-to-date return of "only" -3.3%), with the tech-heavy NASDAQ rising 15.5%. The S&P Mid and Small cap

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

indices rose 14.1% (year-to-date return of -20.2%) and 12.6% (-24.5%) respectively; these gains are indicative of the appetite for risk that prevailed during April. The German equity market rose 9.3%, Japan 6.8%, Hong Kong 4.4%, and the Swiss market 3.4%. Within emerging markets the Indian market rose 14.4%, the South African market rose 14.0%, Turkey 12.8%, Brazil 10.3%, Russia 10.9% and China 4.4%.

Admont Abbey library, Admont, Austria

Instagram handle: @nurielmolcho

Global bond markets were also firm. The Bloomberg Global Aggregate Bond index rose 2.0% while the dollar ended the month just about where it started. Commodity markets reflected the firm tone of other markets: the gold price rose 5.3% and the price of copper 7.5%. Despite its unprecedented volatility – the oil price at one stage was listed as -$37.60 (that's a negative price of $37.60) – its official monthly return was "only" -2.2%. Palladium declined 13.8% but is still up 34.5% during the past year, and the iron ore price was flat.

What's on our radar screen?

Here is a summary of the things we have been keeping an eye on:

- *The SA economy:* when reading through the following sections, do bear in mind that many indicators are by their nature lagging ones i.e. the data is old when it is received. Economic growth, typically measured by a change in a country's Gross Domestic Product (GDP) is an old, or we say, *lagging* indicator. Other data is more current, providing a more current indication of what is going on in the economy. Good "economic-speak" would refer to such indicators as *coincident* indicators. Chief amongst these are the Purchasing Managers Indices (PMI) which we have highlighted on numerous occasions in recent months. PMI methodology is identical across the world, making it easy to compare across countries. It is also easy to read and interpret: the data series is an index which oscillates around the 50 level. Any reading above 50 indicates growth in the activity being measured; the higher the reading, the more rapid the growth. Similarly but in the opposite direction, any reading below indicates a contraction; the worse the reading, the faster the contraction. By way of background it is extremely rare to have readings above 60 and below 40. Any such readings would be quite shocking –bear that in mind as you read on. For obvious reasons, PMIs are closely watched during times of economic crisis, as they are quick to shed light on the prevailing activity.

The Louvre Museum, Paris, France

Instagram handle: unknown

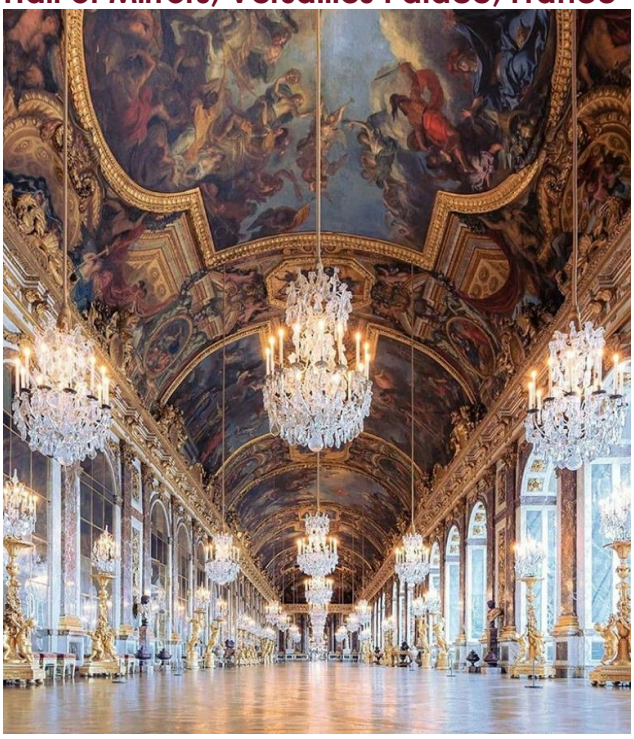
Maestro has gone on record as saying that the economic cost of the lockdown will be immense and devastating. We have waited with trepidation at the data to emerge to confirm our worst fears. We didn't have to wait long. The April manufacturing PMI data showed an unheard-of decline to 5.1. Not surprisingly this was the lowest reading on record and can be compared to a reading in the mid-30s at the worst of the 2007/9 Great Financial Crisis. For all intents and purposes, the SA manufacturing sector ground to a halt in April. That didn't come as a surprise to us; what really concerns us is how many jobs and livelihoods have been destroyed in the process, many of which have been irretrievably lost. The true cost to society will start to emerge in the coming weeks, and it is this consideration which fashions our vehement opposition to the lockdown and its extension through various levels.

Against this background, it was not surprizing to see the SA Reserve Bank (SARB) reduce interest rates by 1.0% to 4.25%, and indicated they believed there was a risk inflation would move lower due to the lockdown, although they didn't foresee too much impact on inflation from the weaker rand. They reduced their 2020 GDP from -0.2% to -6.1% although they foresee a rebound in 2021 of 2.2%.

- *The US economy*: So much data has emerged which is truly unprecedented and shocking that we will stick to the most important ones here. 36.5m jobs have now been lost in the US during the past eight weeks – that equates to more than 10% of the entire US population. Prior to that the US created an average in excess of 200 000 jobs for a record 113 consecutive months. In other words, in six weeks the US lost all the jobs it created during the preceding 10 years! The loss of 36.5m non-farm jobs can be compared to the previous record decline during the Great Depression, and a loss of "only" 2m jobs in September 1945, as World War II ended. The April unemployment rate rose to 14.7% from 4.4% in March, but that needs to be treated with caution as the collection of data was hindered by lockdowns across the US. We suspect it will rise further next month, and eventually into the mid-twenties, notwithstanding any partial re-opening of the economy. To place the 14.7% in perspective, the peak US unemployment rate during the Great Depression was 25.0% in 1933.

Unsurprisingly, the sectors that lost the most jobs were leisure and hospitality, education and healthcare, and retail. Teenagers experienced the biggest jump in joblessness, from 14.3% in March to 31.9% in April. Unemployment for both adult men and women was 4.0% in March but climbed higher for women in April to 15.5%, while the adult male rate rose to 13.0%. African-American unemployment jumped from 6.7% to 16.7% while for Hispanics it soared from 6.0% to 18.9%.

Hall of Mirrors, Versailles Palace, France



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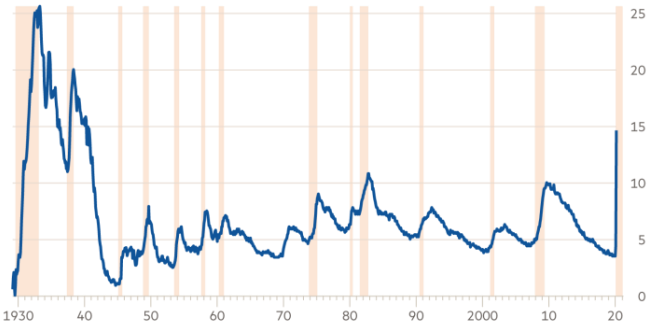
It is worth highlighting the significant toll that the services, as opposed to the manufacturing sector, is taking. Six out of seven jobs lost during April were lost in the services sector. This is true throughout the world, where the PMI Non-manufacturing indices i.e. services, declined significantly more than the Manufacturing indices. It doesn't take a genius to realize that an economy that has been so badly damaged will take a very long time to recover. You can read the same into every economy that has suffered during the Covid-19 pandemic.

Chart 2: US unemployment rate (%)

Shaded areas represent periods of recession



Source: FT.com

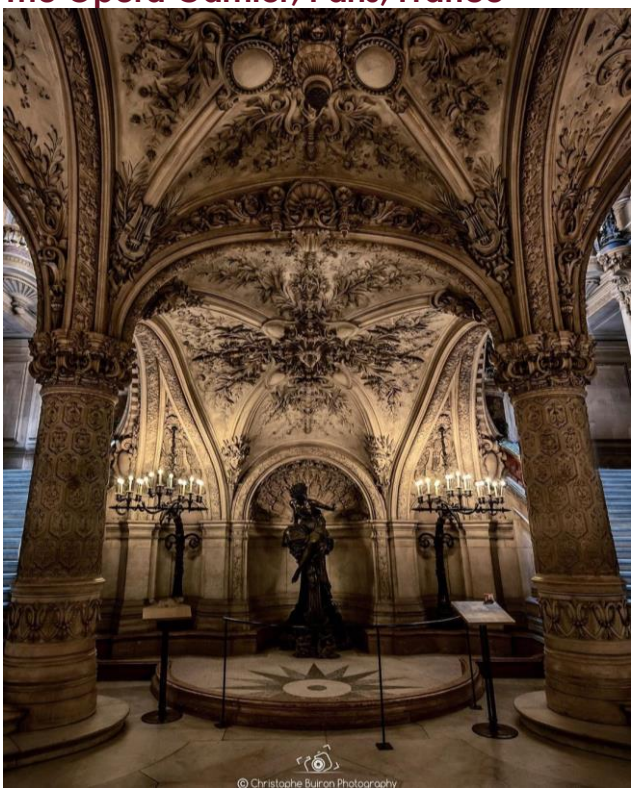
The ISM Manufacturing PMI reading was 41.5, down from 49.1 last month, but that should be treated with caution, given the difficulty many participants had in making their submissions. The April ISM Non-manufacturing (services) index fell to 41.8, the lowest reading since March 2009. The trade deficit in March widened to $44.4bn, driven by a 9.6% decline in exports, the largest monthly decline on record. Imports fell by 6.2%.

The initial estimate of first quarter (Q1) economic growth in the US revealed the steepest decline since Q1 2009, the trough of the Great Financial Crisis (GFC). The economy fell at an annualized quarter-on-quarter rate of 4.8%. Bear in mind the Covid pandemic only hit the US economy during the last two weeks of March, so this reading reveals a frightening rate of decline which doesn't bode well for the growth rate for Q2 and beyond. Forecasts for an annualized contraction of the US economy during Q2 of 30% are now commonplace. The 4.8% Q1 decline was driven by a 7.6% decline in personal consumption

expenditure, which constitutes around two thirds of the total economy. Contributions to Q1 growth in annualised percentage points from private consumption are telling: services consumption contributed -5.0%, durables -1.2%, and non-durable goods such as food and beverages, 0.9%. Businesses reduced inventories, so their investment contracted for the fourth quarter in a row, yielding a contribution to GDP of -1.2%.

Another indication of how bad things are likely to get came in the form of US retail sales, which declined 8.7% in March. This decline can be compared to the worst monthly decline during the 2007/9 GFC of "only" 3.9% in November 2008. Industrial production fell by 5.4% month-on-month, the worst monthly performance since January 1946, just after the end of World War II. As though that wasn't bad enough, fast forward a month, and the April retail sales data were even worse. Retail sales slumped (I'm running out of suitable verbs here) 16.4% month-on-month and 21.6% on an annual basis. Remember, we are talking here about the world's largest consumer market; these numbers are breath-taking and the consequences for the global economy significant and unavoidable. Industrial production during April declined 11.2% month-on-month, while manufacturing production fell 13.7%, bringing its annual decrease to 18.0%. The April decline was the worst on record – and the records go back to 1919! Finally, we record here that core inflation i.e. excluding food and energy prices, *declined* 0.4% in April, the largest monthly decline since 1957 when the data series began. A lot of the downward pressure emanated from the collapse in oil prices in April (the fuel price, or gasoline as they call it in the US, declined 20.6% in April). The annual rate of headline inflation declined to 0.3% in April, while the annual core inflation rate declined to 1.4%.

The Opera Garnier, Paris, France



Instagram handle: @cburion

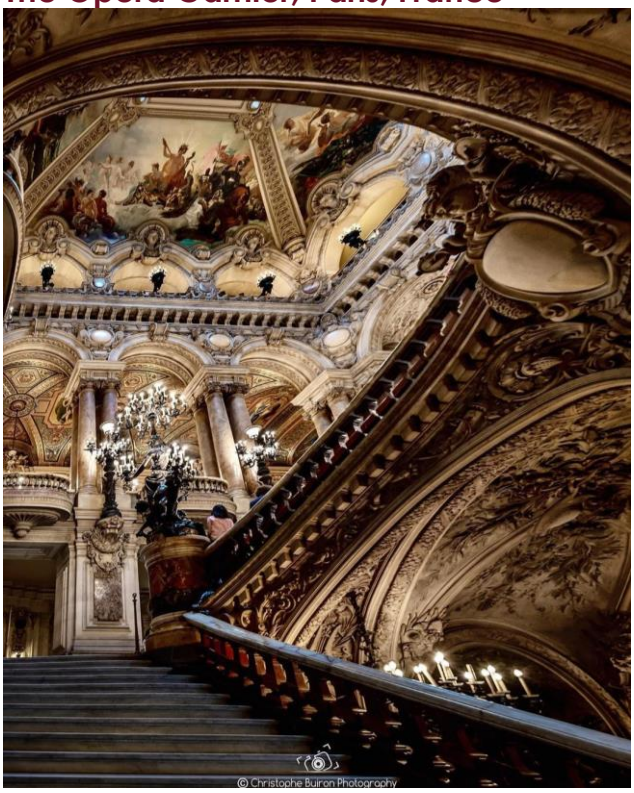
- *Developed economies*: the past month has seen central banks reduce interest rates and announce unprecedented support for their respective economies, primarily in the form of financial relief to SMMEs, through open market security purchases (thereby increasing the liquidity in the economy), including Exchange Traded Funds (ETF). Norway's central bank reduced interest rates to zero, having lowered them by 1.5% during the past two months. Hard hit by the oil price slump – remember we are experiencing three global crises simultaneously (an economic, medical, and oil crisis) – Norway's economy is expected to decline more than 5.0% in 2020.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

All eyes were of the respective PMIs of countries to obtain an indication of the economic devastation. The readings were nothing short of catastrophic (but not as bad as those in South Africa). The final April Eurozone composite PMI was 13.6, the lowest on record. The European Union was only formed in the late nineties, so records don't extend beyond 1998. The composite PMIs for specific countries didn't make for pleasant reading: Germany's reading was 17.4, the UK 13.8, France 11.1, Italy 10.9, and Spain 9.2 – all record lows. Japan's services PMI slid to 22.8 in April, while in Australia, the services PMI reading was at 19.6 versus 38.5 in March. The Australian manufacturing PMI reading was 45.6 versus 49.7 last month. Other jaw-dropping data releases included Germany's factory orders, which declined by 15.6% in March (brace yourself for a lot worse in April), the lowest since 1991, while Eurozone retail sales fell 11.2% in March.

The Hong Kong economy suffered its worst performance on record, slumping 8.9% on an annualized basis in Q1. The previous worst slump was 8.3% in Q1 of 1998 as the city reeled from the 1997 Asian financial crisis. Exports fell 9.7% due to the disruptions to regional supply chains and trading activities. Unemployment at 4.2% registered its worst level since 2009, while a lack of inbound tourism contributed to a 37.8% decline in service exports. Investments declined at an annualized rate of 13.9% during Q1.

The Opera Garnier, Paris, France



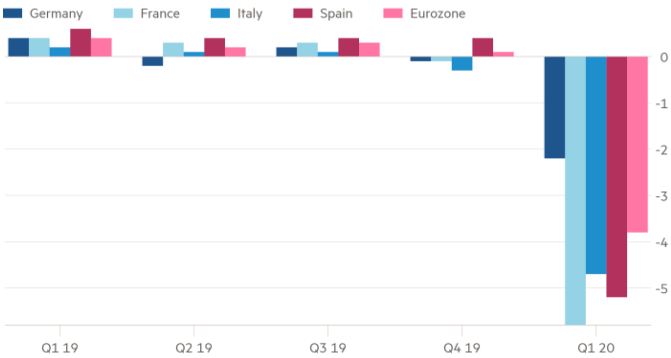
Instagram handle: @cburion

Speaking of economic growth, or more like contraction, we received the following data releases for the Eurozone, but again bear in mind that the real effects of the lockdowns will only be evident in Q2. Nevertheless, the contractions registered were noteworthy; we can only wait in trepidation for the Q2 data. The Eurozone declined 3.8% in Q1, from the previous quarter – please note that these are un-annualized numbers. European Central Bank (ECB) President Christine Lagarde said in a recent press conference that she expected a Q2 contraction as large as 15% in the Eurozone and the Bank of England (BoE) has forecast a Q2 contraction of 25%! The French economy contracted 5.8% during Q1, the largest decline on a record stretching back to 1949. Italy contracted

4.7%. The European Commission forecast 2020 economic contractions for Greece of -9.7%, for Italy of -9.5%, and Spain -9.4%. Speaking of Spain, its economy declined 5.2% quarter-on-quarter during Q1, the worst on records which extend back to 1970. Tourism constitutes about 12% of the Spanish economy, and their central bank has forecast economic contraction of 12.4% for 2020. 900 000 jobs were lost during the second half of March alone. Consumer spending fell 7.5% during Q1 compared to the previous quarter, investment declined 9.6%, and retail sales by a record 11.0%. The German economy declined by a quarter-on-quarter rate of "only" 2.2% during Q1, but it is likely to get a low worse in Q2. Germany has been far less affected by the pandemic in general. For the sake of reference, Germany's economy declined 4.7% during Q1 2009, the peak of the Great Financial Crisis. The Q4 19 growth rate was revised down from 0.0% to -0.1%, which officially pushed Germany into a recession.

Chart 3: The Eurozone is facing a recession

Change in GDP, quarter-on-quarter (%)



Source: FT.com

While we are thinking about the massive economic contractions we are likely to see in 2020, I draw your attention to the International Monetary Fund's (IMF) semi-annual World Economic Outlook, wherein they forecast that global economic growth would decline by 3.0% this year, far exceeding the global contraction of only 0.1% in 2009. They forecast that developed economies would contract 6.1% and emerging economies 1.0%. In their view the Eurozone would contract 7.5%, Spain 8.0%, Italy 9.1% and Greece 10.0%. These are all declines for the year as a whole, relative to 2019. The mid-year quarterly declines are going to be significantly greater. The IMF sees global trade declining by 11.0%.

- *Emerging economies*: The Mexican economy contracted by 1.6% quarter-on-quarter during Q1; the real weakness will become more apparent in Q2. Industrial activity fell 3.8% and services 1.4%. The Mexican central bank reduced interest rates by 0.5% in April, and by another 0.5% in May to 5.5%. Expectations are for Mexican economy to decline by at least 6.0% this year. Brazil's Congress approved the release of $122bn for the economic recovery from the pandemic. The country's central bank reduced their interest rate by 0.75% to a record low of 3.0%. The bank has cut rates at each of its past seven meetings. The Central Bank of Russia reduced their interest rate by 0.5% to 5.5%. The central bank of Malaysia reduced their interest rate by 0.5% to 2.0%, the lowest since the Great Financial Crisis. The bank hinted at significantly weaker growth ahead, owing partly to lower oil and gas revenues. It expects the country's fiscal deficit to widen to 4.7% of GDP in 2020. Indonesia's economy contracted 3.0% year-on-year in Q1, the largest contraction since 2001, driven mainly by a slowdown in private consumption and investment. In

Turkey, the central bank continued to ease interest rates, reducing them by 1.0% to 8.75% in April. The bank has reduced interest rates by 15.25% since June 2019, even though the latest inflation reading showed prices still increasing at an annual rate of 11.9%.

The Opera Garnier, Paris, France

Instagram handle: @cburion

Finally, to China now, the world's second largest economy, where the economy contracted 6.8% year-on-year during Q1 (the quarter-on-quarter decline was 9.8%). The weakest data on record prior to the Q1 data was Q3 and Q4 in 2019, when *growth* of 6.0% was recorded, so the 6.8% *contraction* was quite remarkable. Retail sales declined at an annual rate of 15.8% and fixed asset investment at a rate of 16.1%. The unemployment rate declined from 6.2% to 5.9%.

Quotes to chew on

There is light at the end of the tunnel

In the midst of the awful pandemic I was struck by this refreshing news item on 29 April, carried in *Julius Bär's European Bell*: "Yesterday, Beijing Xiaotangshan Hospital, designated for the treatment of suspected cases and confirmed mild cases of the coronavirus, announced it had discharged its last remaining patients and will close today".

Tit-for-tat, with some added humour

We have watched with concern as the US Whitehouse has ratcheted up the rhetoric and pressure on China, for a number of reasons, many US election related. We are very concerned about where such reckless barbs will lead, particularly at a time when world economies are so fragile. We are watching developments closely. That said, after the truly breath-taking comments by US Trump regarding the injection of disinfectants as a possible cure for coronavirus, came this tweet, on 26 April, from Communist Party of China's Central Committee International Liaison Department spokesperson: "Mr President is right. Disinfectant is an effective way to kill the virus, and less controversial than wearing a mask. By the way, China is the world's largest exporter of disinfectant. If there's a shortage in the US, feel free to import some from China. Some people do need to be injected with disinfectant, or at least gargle with it. That way they won't spread the virus, lies and hatred when talking."

Trade-offs in the global warming debate

Always thought-provoking and worth a read, the *Early Morning Reid* by *Deutsche Bank's Jim Reid* contained this little pearl: "… one of the most interesting things I read this weekend was a fairly simple piece that explained that the saviour of

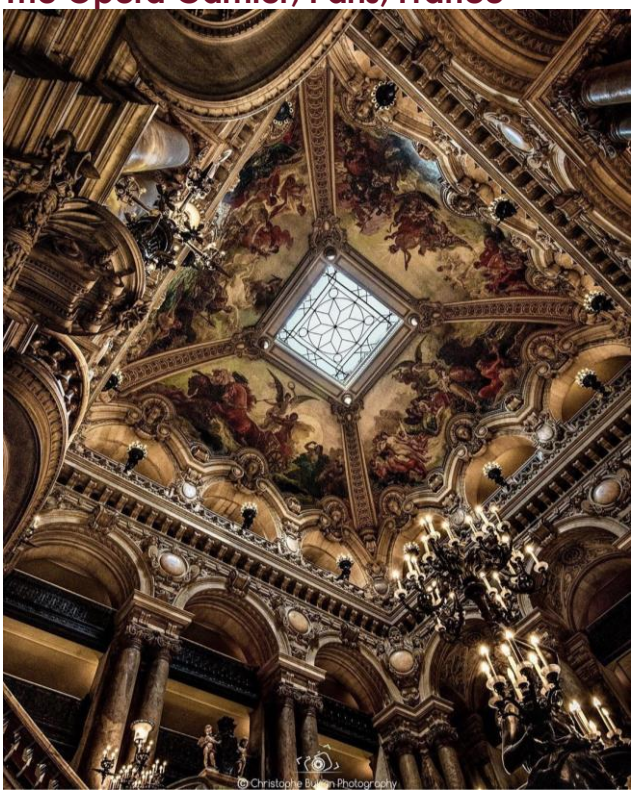
the world's health services - namely PPE - is a product of polypropylene and thus the oil and gas sector. It is in effect single-use plastic. Yet I've not heard anyone complain about the impact on the environment of trying to produce as much of it as possible. When we discussed in our 2020 climate change related Davos note about the difficult global warming dilemmas ahead, we noted that the very things that have helped pollute the atmosphere over the last couple of centuries have also improved the health and wealth of all humans beyond recognition relative to our forefathers. Before the industrial revolutions being a human was a bleak existence for the vast majority. In the Davos note we speculated as to whether humans would soon realise the economic trade-offs necessary if they really wanted to halt global warming. The Covid-19 experience has kicked the debate into the long grass for now but I suppose we're learning a bit more about what life would be like without growth during these lockdowns and also interestingly that single use plastics can be worshiped if used to save lives".

Debt, debt and more debt

For a long time now we have listed amongst our top long-term concerns the increasing mountain of debt being piled up for future generations to service. One of the underlying factors supporting this debt accumulation is, ironically, central bank intervention in capital markets.

Once again, we rely on *Jim Reid* to summarize it for us and to highlight the secondary, long-term effects this so-called central bank "support" might give rise to. "Although this crisis is unique in its making and is clearly not the fault of anyone in financial markets, it is clearly exposing two of the biggest fault lines in the financial system over the last two decades. Firstly, Thursday saw the latest instalment of a 20- to 25-year super cycle where the authorities have been so reluctant to see the creative destruction that's so important to successful capitalism that they had to make another stunning major intervention, and secondly, we saw the latest evidence that a European monetary union without fiscal union was always going to involve sporadic but hugely existential risks to the EU and help to create ever more fraught politics.

The Opera Garnier, Paris, France



Instagram handle: @cburion

On the first one, ever since the Fed of the late 1990s decided to bail out the financial system post the Long-Term Capital Management (LTCM) collapse, we've had rolling state sponsored capitalism and large moral hazard. This has meant that each subsequent default cycle (or mini market cycle) has been less severe than the free market parallel universe version would have

been, and has left increasingly more debt in the system as a result and meant that the intervention necessary to protect the system has got greater and greater. In my opinion, it also helps lock in lower productivity as you keep more low/no growth entities alive.

On Thursday, the Fed announced the details of their $2.3tn to support the US economy. The main additional features within credit was the buying of any eligible corporates that were Investment Grade (IG) rated before March 22nd and also High Yield (HY) Exchange Traded Funds (ETFs). For fallen angels this is huge moral hazard as a lot of BBB-rated companies have seen their ratings downgraded in recent years due to: 1) central bank inspired ultra-low interest rates encouraging them to lever up, and 2) a related desire to return value to shareholders, especially through share buybacks. In terms of buying HY ETFs, while this is planned to be small in terms of size, it is the first time a major central bank has purchased HY corporate debt and therefore opens the door for more aggressive interventions in lower rated credits going forward. As an example of the impact, Ford which became the 2nd largest fallen angel in history in late March, saw its 5.875% August 2021 bond yield fall from 8.8% to 4.9% on Thursday after the announcement.

While I would stress that in the face of a global pandemic, there has to be some sympathies with these policies, had markets not been repeatedly bailed out over the last 20 - 25 years the authorities wouldn't have needed to be as aggressive. It also makes me wonder what could ever allow us to see free market creative destruction again in my lifetime. When we see the subsequent recession after this one, you'll again start from even higher debt and the same issues will come up albeit with a much less severe economic scenario than the Covid-19 one.

I can hear the refrain from investors in say 2025 when credit looks too tight for the late cycle risks. They'll say that it's impossible not to be long as the Fed has their back and they'll miss out if they are not fully invested. Understandable but a very bad way of ensuring capital is allocated in the most growth enhancing manner."

The Opera Garnier, Paris, France

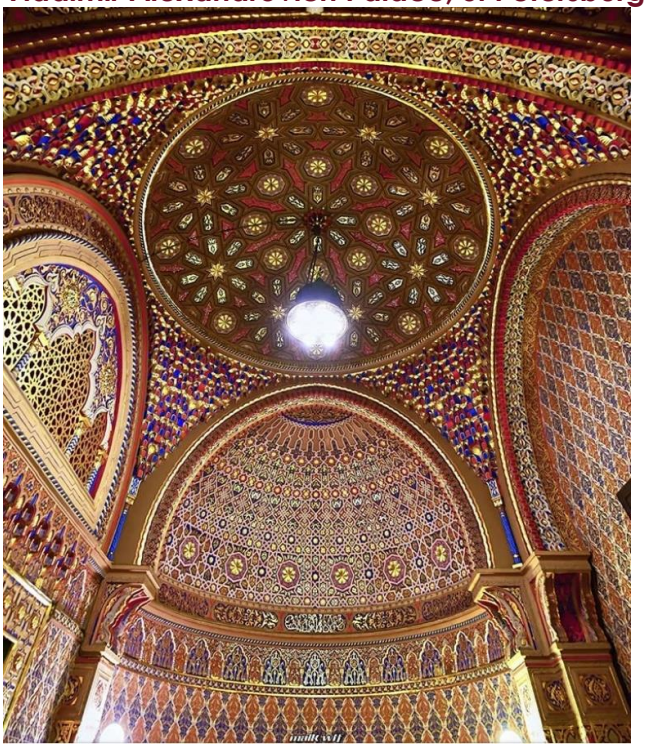
Instagram handle: @cburion

In case you thought the volatility was over

In case you thought that the market had become less volatile in recent weeks, the following comment describing the market action in mid-April shows just how volatile the market remains. Admittedly, it does come in the wake of the fastest US bear market ever: "It was a week that saw some equity markets enter technical bull market territory after virus curves flattened

and the Fed deployed further aggressive interventions in the US. The S&P500 rose 12.1% on the week, the best week since October 1974 and the 8th best week out of 4 184 weeks on record since January 1928. The index also entered a bull market, rising 24.7% from the index's closing lows on March 23."

Vladimir Alexandrovich Palace, St Petersburg



Instagram handle: @maik.wtf

The world is drowning in all the liquidity

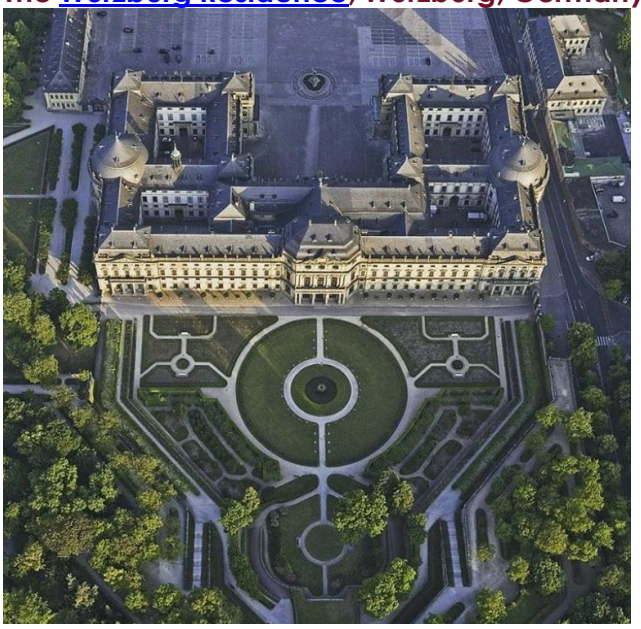
Related to the issue of an increasing debt pile around the world, a large factor in this issue is the unprecedented quantities of capital (or liquidity as we refer to it) that central banks around the world have pumped into the market. The theory behind this action is firstly to ensure that interest rates stay low – in this regard the injection of liquidity has been successful – and secondly to stimulate demand i.e. crudely put, to get consumers to go out and spend money. With regard to this second objective, the policy has been an utter failure. What it did during the 2007/9 Great Financial Crisis was to boost the prices of financial assets like shares, which had a disproportionate effect on the world in that the wealthy benefitted, but the poor didn't. While this is an over-simplification of the theory of such monetary policies, it illustrates why the latter are rather controversial. And as we saw from Jim Reid's comments above, the problem is that with each ensuring crisis, the amounts of liquidity, the flipside of which is debt, have to be larger and larger to get the same "bang for their buck".

Turning to some thoughts on the vast sums of liquidity (capital) that central banks have pumped into markets during the Covid-19 crisis so far, let's turn again to *Jim Reid's* thoughts, contained in another of his *Early Morning Reids*: "Talking of gushes of liquidity, the confusing thing for markets at the moment is the huge dichotomy between what will possibly be one of the worst synchronised global economic slumps in history against what is undoubtedly the largest ever intervention. On the second point Deutsche Bank's Alan Ruskin showed … that global central bank balance sheet expansion has already spiked about $2.7tn since early March which now comfortably eclipses the full peak 12-month increase seen during the GFC (under $2.5tn). On our calculations, this is the same amount as the annual total output of either the UK or French economies. Two thirds of this increase has come from the (US) Federal Reserve so far.

Again using our back of the envelope calculations, given that the global economy is worth around $80tn annually and that the IMF last week said it would fall 3% in 2020 (in real terms under the base case) that's potentially 'only' $2.4tn of lost activity (less if you add inflation). Relative to the pre-Covid trend they forecast

$9tn of global GDP losses by the end of 2021. Even if you think these numbers are a bit low, when central banks have so far pumped an annualised $23.4tn into the financial system, you can see how it's hard to get a feel for where markets can go. Clearly they won't keep up that pace of liquidity injections unless economies fall even further but could you really have a situation in 1-2 months' time where economies are still struggling to fully open and yet equity markets are back at record highs? I don't think so but you couldn't rule it out given the ginormous liquidity injections. Crazy times and we haven't even mentioned the government injections".

The Würzburg Residence, Würzburg, Germany



Instagram handle: @aidennyc

Covid-19: Selective analysis

I am sure you, like me, are sick and tired of the Covid pandemic by now. It is everywhere we look, on every news bulletin – the whole bulletin – and it affects every facet of our lives these days. The "news" media seem to have lost their way and forgotten that there is a world outside of Covid-19. Be that as it may, it remains within our remit and nature, as investment professionals, to analyse the pandemic as best we can, and pay attention not to glib politicians who have so dismally failed their citizens, but to seek to understand the virus, its effects, how it works, what its next move will be, etc. With no disrespect to the scientific and medical community, it is fair to say there are few people who really know much about the coronavirus. We are all starting from scratch in our understanding of this "microscopic mite" that has changed the planet which we inhabit in such a material way and in such a short space of time.

I found certain articles and analyses of the virus interesting, and would like to share some of them with you. Some of them are economic in nature, some medical, but all represent the tip of a very complex, yet fascinating, iceberg.

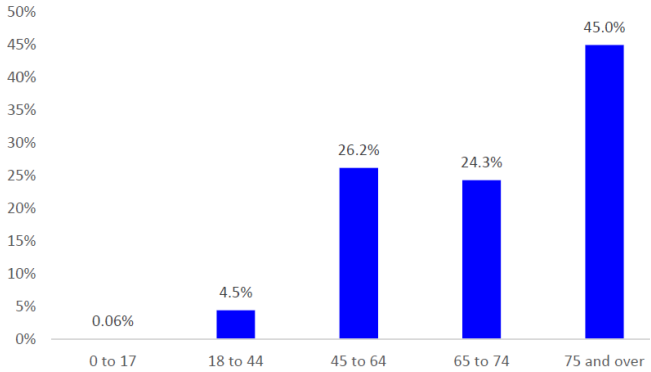
The ultimate age discriminator

The sad reality of the coronavirus, as we are learning very quickly, is that it is the ultimate age discriminator. It affects the elderly significantly more than the young, as well as people who have underlying medical conditions such as hypertension, obesity, diabetes, and cardio-vascular and respiratory diseases. Two examples will illustrate this point.

Charts 4 and 5 show the percentage of Covid-19 deaths in New York by age and underlying conditions, as at 30 April. Chart 4 shows that only 5 out of 11 820, or 0.06% of deaths were amongst those aged 17 or younger. 4.5% or 482 deaths were between 18 and 44-year olds, while 69.3% or 8 682 of deaths were amongst those 65 years and older. 45.0% of the deaths were amongst those older than 75 years old. All these deaths had at least one known underlying condition.

Chart 4: The ultimate age discriminator

% of NYC deaths with at least one underlying condition

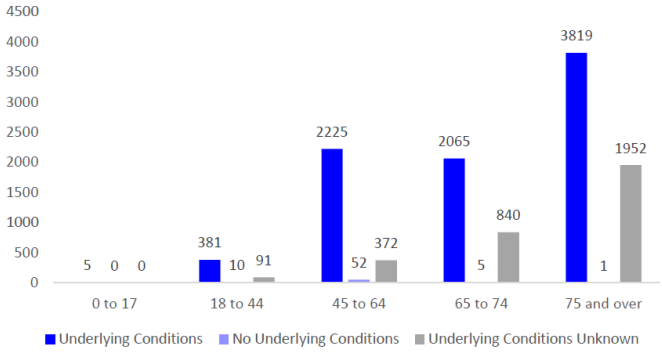


Source: Deutsche Bank

All 5 who died under the age of 17 had underlying conditions. Of the 482 people in the 18 to 44 year bracket, 10 had no underlying conditions, 381 had them, and 91 were unknown. Of the 8 682 fatalities in the over-65 age cohorts, only 6 did not have underlying conditions, 2 792 were unknown but 5 884 people had underlying conditions. Yet despite all the "unknowns" the message is clear: elderly people with known, and identified underlying conditions are extremely vulnerable right now.

Chart 5: Pre-existing conditions don't help

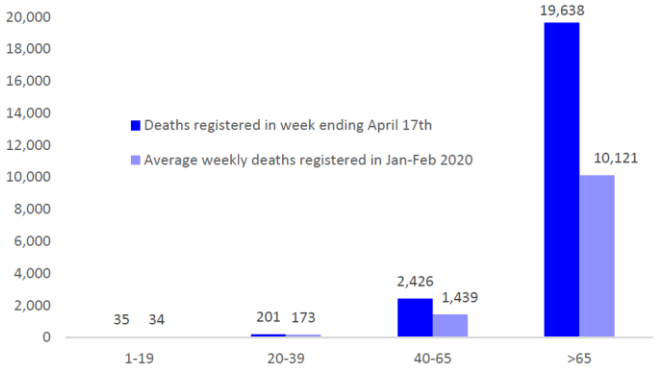
NYC deaths with preexisting conditions by age group



Source: Deutsche Bank

There is a similar message from an analysis of the UK data, for the period ending 17 April. 19 638 people over the age of 65 years were registered to have died, for all reasons, compared with an average weekly number of 10 121 in January and February 2020, prior to the onset of the virus. These 'excess' deaths are used to help calculate a better proxy for actual deaths than reported fatalities. There is clearly a big gap between these two numbers, especially for the higher age group. When excess deaths in younger age groups are examined, there is still a noticeable gap, however, it is narrower. For 40 – 64-year olds, there were 2 426 registered deaths in the week ending 17 April compared with the pre-virus average of 1 439. For 20 – 39-year olds, the gap narrows further to 201 registered deaths compared with a pre-virus average of 173, while for 1 – 19-year olds the numbers are almost identical at 35 and 34 respectively. This confirms that this virus is a savage age discriminator.

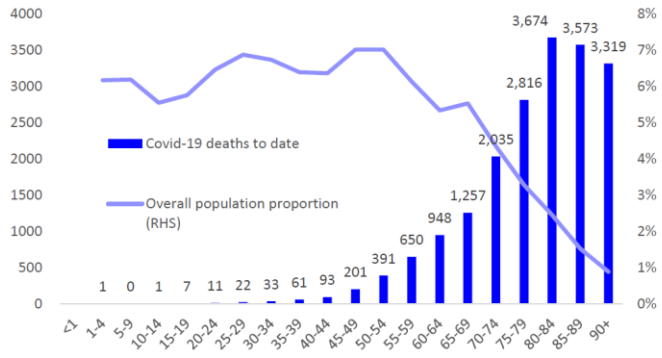
Chart 6: UK deaths pre-and post Covid-19



Source: Deutsche Bank

Chart 7 shows the total Covid-19 deaths in England and Wales so far by five year age buckets and shows the percentage of the total population in these same age buckets. For example, 'only' nine people have died of Covid-19 under the age of 19 to date (23.7% of the population are in this bucket). 3 319 over 90-year olds have died so far (0.89% of the population). 55.0% of all registered Covid-19 deaths (10 566) have been those aged over 80-years old, yet this group makes up only 4.9% of the population.

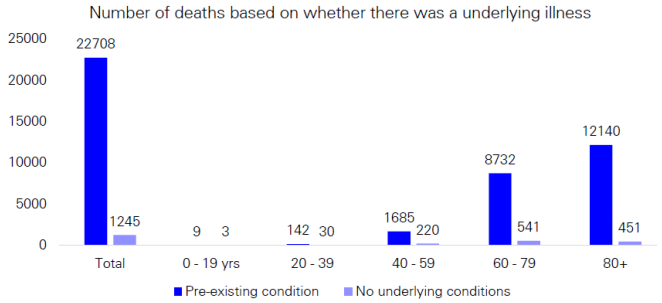
Chart 7: UK Covid-19 deaths by age cohort



Source: Deutsche Bank

Subsequent to writing the commentary to the slides above, I received updated UK data which I share below. The message is the same: *if you are elderly and have comorbid symptoms, you are very vulnerable*. Chart 8, which contains data to Friday 15 May, displays the total number of deaths by age cohort.

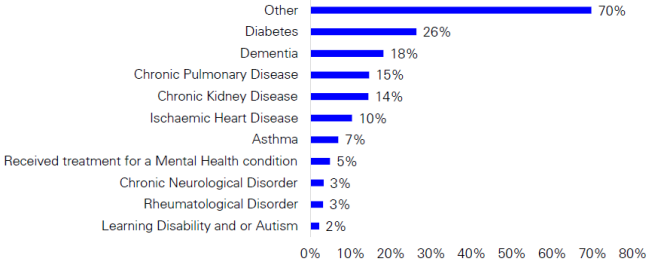
Chart 8: Age, underlying conditions count



Source: Deutsche Bank

Chart 9 shows which underlying conditions are most prevalent. It is interesting to note how far down asthma is on this list. Note, too, that the totals add up to more than 100% as many of the patients had more than one underlying condition. As a matter of interest, not shown in the data is the fact that of all the Covid-related deaths in the UK so far, 94.8% of them were associated with people who had underlying conditions other than the virus.

Chart 9: No. of deaths with underlying condition

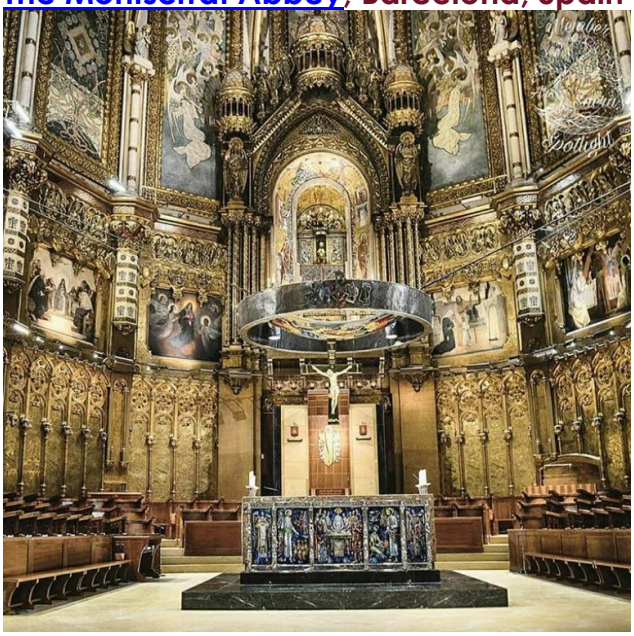


Source: Deutsche Bank

Children and their well-being in a Covid world

Many articles have been written about the effects of Covid-19 on children, or rather the *lack* of effects. On 11 May, Professor Shabir Madhi, infectious disease specialist and member of the Ministerial Advisory Committee on Health, was quoted on this topic: "What we know about Covid-19 in children is that they rarely develop a severe illness. As an example, in Italy there were 30 000 deaths from Covid-19, of which none were children younger than 18. In the United States, less than 2% of cases were children and only three died. All three had underlying medical conditions. For the first time that I have come across in 25 years of studying respiratory pathogens, children are being spared severe disease from a respiratory virus. We don't fully understand the reason … but worldwide only a handful of kids died of Covid-19. The other concern is that children can be an important vector of transmission – but it was an extrapolation of what we know about influenza as we experience it every year." He said a study from the Netherlands and another done in Australia showed that there were hardly any cases of children infecting adults. This is one aspect of the virus that is being studied closely although it tends to get drowned out by the more sensation virus-related news. It is important to bear in mind, though, and may well hold vital information which can assist the world in overcoming the pandemic.

The Montserrat Abbey, Barcelona, Spain



Instagram handle: @viajeravip

So when is your business going to fail?

The major reason for Maestro's rejection of the current lockdown is the devastating effect it has already had on the economy, the evidence of which will only emerge later. Although we humbly believe we have a better "handle" on the economy than most lay people, the evidence is there for all to see.

On 14 April i.e. more than one month ago, during the presentation of their results Capitec said they had conducted their own survey to ascertain the effect of the lockdown on businesses. 72% of the participants said they will not last 3 months (one month has already passed since then), 27% said they will not last one month (so it is fair to assume these firms are already bankrupt and all their employees have lost their jobs – that's 27% of the respondents i.e. more than a quarter!), and 53% said they have already considered retrenchments.

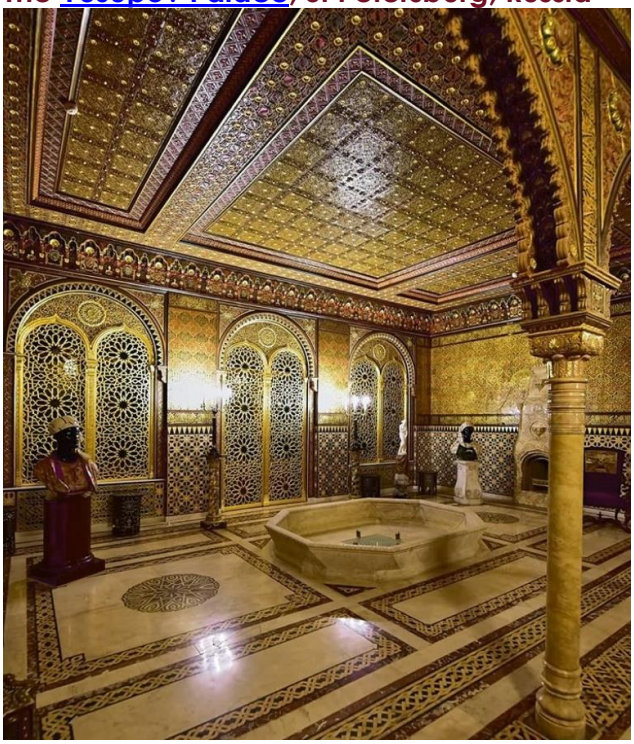
In another survey conducted of 707 businesses by Statistics South Africa, between 30 March and 13 April, so early on in the lockdown, the results were broadly similar. Key findings included:

- 85.4% reported turnover below the normal range – no surprises there
- 46.4% indicated temporary closure or a pause in trading activity
- 50.4% expected their workforce size to stay the same two weeks after the survey, while 36.8% reported that their workforce size was expected to decrease
- 28.3% indicated that their workforce has decreased working hours and 19.6% reported laying off of staff in the short-term
- 23.8% indicated a decrease in access to financial resources while 52.6% indicated access remained the same
- 38.2% of businesses applying for financial assistance reported that they would use government relief schemes
- 30.6% indicated they can survive less than a month without any turnover, while 54.0% can survive between 1 and 3 months. Here again, more than a month has passed since this survey was done, so a fair chunk of this 54% and all of the 30.6% have gone out of business already.

The point here is that businesses die at a rapid rate when they have no turnover. Small and mid-sized firms, which constitute the majority of the economic fabric *and which employ the most people* and also generate the most employment opportunities, do not have the financial resources to get through normal crises, let alone a catastrophic 7-week, or longer, total lockdown. We again raise our extreme concern at the devastating effect this lockdown has already had on the South African economy and the country's citizens as a whole.

Worse still, the economy was already in a recession and employment was close to 30% *before* we even went into this pandemic. We cannot begin to imagine the devastation this will bring on the country, both now and into the future, for years and generations to come.

The Yusupov Palace, St Petersburg, Russia



Instagram handle: @maik.wtf

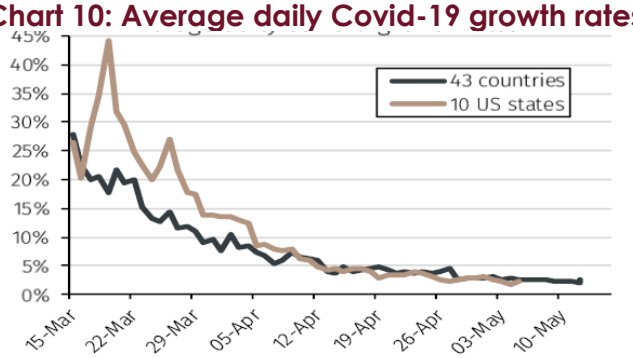
Charts of the month

A brief look into a Covid-19 world

The edition is getting long and I am conscious of your time. So in the interests of keeping it as short as possible, I will keep my comments on these charts to a minimum – many of them actually speak for themselves. I am aware that we are all sick and tired of the virus already, but it will continue to play a huge role in global investment markets, so we continue to monitor and study it to assess, to the best of our abilities, what our consequent action should be.

Maestro has been "fortunate" in that we have, by and large, "missed the potholes" (as we say in the office) so far this year, by which we mean we have not had any direct exposure to the real casualties of the Covid virus, such as the energy sector (although it is going through its own unique crisis at the same time), or the leisure, hospitality, travel, airlines, or property sectors. I say "direct" because clearly as the unemployment related to these sectors soars, the loss in income and livelihoods will eventually filter into the real economy and affect all industries. For now, we are grateful for not having had exposure to these sectors. The performance, or rather the lack of returns from these sectors, has been truly breath-taking, the reasons for which are shown in the charts below.

Chart 10: Average daily Covid-19 growth rates

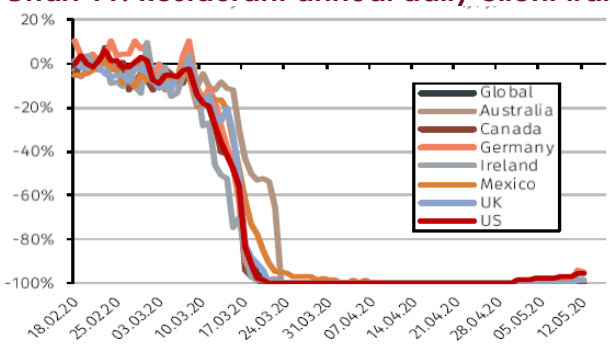


Source: EFG

Lest we rush out and slit our wrists, it is worth reminding ourselves that no matter what the news media and politicians say, and the drama they seek to generate, Chart 10 shows clearly that the rate of the growth in, and spread of, the virus is diminishing at a rapid rate. In most countries the pandemic has been turned into a political football, with brownie points-scoring on all fronts. Sadly, this is occurring at the expense – and that expense is vast – of the underlying economies.

Chart 11 shows the annual daily traffic of patrons to restaurants – I wonder how long it will be when you can simply go out to restaurant with some friends for a lovely dinner together? I suggest this isn't going to happen for a long time, so we can justifiably say the restaurant trade is all but dead and gone – for now. This is a tragedy in and of itself, but of course it is actually worse than it seems. Just think of the services and supply chains that keep the restaurant industry, and the broader hospitality sector, in business: waitrons, food suppliers, cleaners, laundries, landlords, and farmers, to mention but a few. Despite what Donald Trump would have you believe, you cannot just "unplug" one sector (or country, like China) and "carry on" as though nothing has happened. No, centuries of evolution and economic development have surely taught us that we all need each other to get by as well and easily as possible. One suffers, we all suffer; this is particularly true of service industries such as restaurants and airlines, and dare I say it, auto (car) manufacturers and the tech industry.

Chart 11: Restaurant annual daily client traffic



Source: EFG

I apologize for Chart 12 being so small, but I think you "get the picture". If the restaurant industry is already dead, rigor mortis has well and truly taken hold in the airline industry. In this regard, I draw your attention to how resilient the industry has been in China, which is listed more or less in the middle of the table.

Chart 12: Global scheduled flights

Annual % change

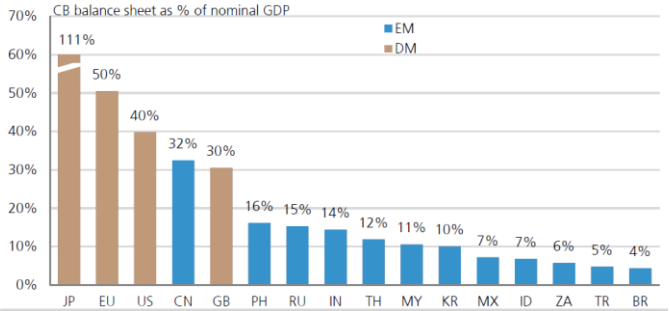
Region	27.Jan	03.Feb	10.Feb	17.Feb	24.Feb	02.Mar	09.Mar	16.Mar	23.Mar	30.Mar	06.Apr	13.Apr	20.Apr	27.Apr	04.May	11.May
All	0%	-4%	-10%	-11%	-10%	-8%	-10%	-12%	-29%	-48%	-59%	-65%	-67%	-66.8%	-72.9%	-68.4%
Germany	-9%	-8%	-8%	-7%	-5%	-5%	-15%	-30%	-72%	-89%	-93%	-92%	-94%	-92.9%	-90.6%	-91.2%
France	-1%	0%	1%	2%	-1%	-2%	-4%	-14%	-41%	-81%	-87%	-92%	-92%	-91.8%	-92.0%	-91.1%
Italy	-5%	-4%	-4%	15%	-6%	-9%	-22%	-74%	-88%	-89%	-89%	-92%	-81%	-80.2%	-78.1%	-78.3%
Spain	-5%	-4%	-3%	1%	13%	-1%	-3%	-14%	-74%	-89%	-93%	-94%	-95%	-94.1%	-92.4%	-92.1%
UK	-5%	-4%	-4%	-3%	-2%	-3%	-16%	-19%	-54%	-76%	-91%	-92%	-93%	-93.5%	-92.8%	-92.3%
Sweden	-7%	-6%	-5%	-6%	-5%	-5%	-6%	-14%	-65%	-77%	-84%	-84%	-90%	-89.8%	-89.5%	-88.5%
China	-1%	-23%	-63%	-71%	-62%	-42%	-43%	-39%	-38%	-44%	-46%	-43%	-42%	-39.2%	-42.6%	-27.4%
Hong Kong	-9%	-21%	-45%	-58%	-63%	-70%	-78%	-81%	-82%	-88%	-92%	-94%	-94%	-93.2%	-93.6%	-89.7%
Singapore	0%	-8%	-15%	-19%	-22%	-25%	-36%	-36%	-77%	-91%	-90%	-92%	-97%	-95.9%	-97.0%	-96.9%
South Korea	1%	-3%	-9%	-16%	-18%	-34%	-52%	-56%	-56%	-57%	-59%	-60%	-59%	-48.5%	-49.5%	-50.7%
India	1%	2%	6%	11%	7%	10%	10%	8%	2%	-68%	-71%	-80%	-88%	-93.6%	-66.6%	-66.8%
UAE	-2%	-2%	-3%	-4%	-3%	-3%	-8%	-24%	-58%	-86%	-84%	-78%	-80%	-81.4%	-77.3%	-77.4%
Australia	-4%	-4%	-5%	-2%	-3%	-2%	-2%	-3%	-16%	-63%	-78%	-85%	-84%	-84.4%	-87.1%	-83.6%
Japan	2%	-1%	-3%	-5%	-6%	-8%	-15%	-19%	-24%	-28%	-32%	-40%	-44%	-44.6%	-47.0%	-47.9%
USA	2%	2%	1%	2%	1%	-2%	-1%	-1%	-5%	-23%	-45%	-58%	-61%	-63.5%	-79.4%	-74.7%

Source: EFG

We have drawn your attention to the enormous size of relief policies that have already been announced by governments around the world – the last count saw the total of these policies equate to around $13tn or some 16% of total GDP on planet Earth; fiscal policies are estimated to constitute about 3.7% of this amount, the balance being contributed by monetary policy. The US alone has announced $3tn of aid and more is on its way.

As a large portion of this aid has been in the form of monetary policy i.e. central bank action and not government action, debt around the world is skyrocketing in absolute terms and this alone is cause for concern. To place these comments in perspective, Chart 13 shows the size of countries' central bank balance sheets relative to the size of their respective economies, as measured by GDP. So the Bank of Japan's balance sheet is, at 111%, now larger than the total Japanese economy. The European Central Bank's balance sheet is half the size of the Eurozone economic output, and the size of the Fed's balance sheet equates to 40% of the total US economy. These are frightening statistics and developments, which will no doubt pave the way for the development of financial markets and government policy for generations to come.

Chart 13: Size of balance sheet relative to GDP



Source: UBS

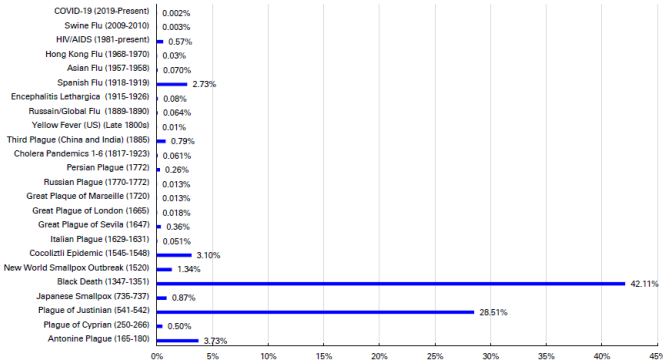
I note in passing that developed economies central bank balance sheets are significantly greater than those in emerging markets. This stands to reason because emerging markets simply don't have sufficient financial resources to rely on. Their debt is also significantly more expensive, making expansive monetary policy that much less attractive. Note from Chart 13 that SA's measures announced so far equate to "only" 6% of the size of the economy.

Moving on, to place the Covid-19 pandemic into perspective, I found Chart 14 enlightening. I'm certainly pleased I wasn't around to experience the Black Death plague during the 14th century. At the risk of belabouring the point, I note that the current death toll from this pandemic, expressed as a percentage of the global population, is only 0.002%. To think that the global economy has been brought to a standstill for that? And it is affecting mainly those who are already suffering from other illnesses or underlying conditions. Am I missing something?

Similarly, Chart 15 is shared to place the current decline in US GPD into perspective. While the Q1 GDP decline is shown, of course the Q2 decline will be far worse, although we will only get that data point in about three months' time from now.

Chart 14: Estimated total deaths by pandemic

% of global population

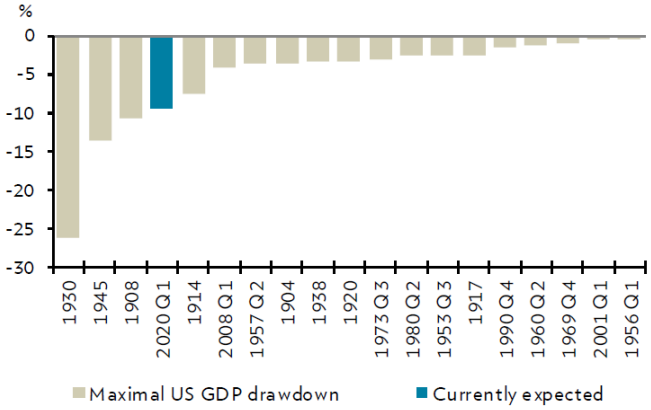


Source: Deutsche Bank

And now for something a little different

We have pointed out before that there are actually three crises currently underway in the world at present – a medical crisis, which has in turn caused an economic crisis, which is also partly although not fully to blame for the oil crisis. For the sake of brevity, I will not spend too much time on the latter crisis, but let us record here that during the past month – on 20 April to be exact – the oil price did actually do negative, and by quite some margin!

Chart 15: US GDP downturns since 1900



Source: Julius Bär

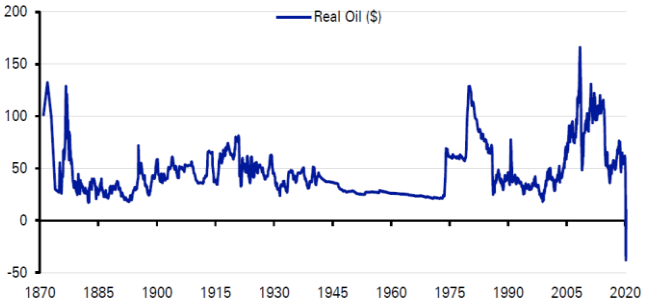
Without going into too much detail, on 20 April the West Texas Intermediate (WTI) May futures oil contract declined to a price of -$37.63. But before we rush to the fuel station to have petrol

attendants doll out cash to us while we fill our cars' tanks, the anomalous price was caused largely by a shortage of storage space in the world.

A Bloomberg article summed up the situation well, by saying "the negative prices revealed a fundamental truth about the oil market in the age of coronavirus: the world's most important commodity is quickly losing all value as chronic oversupply overwhelms the world's crude tanks, pipelines and super tankers. Ultimately, traders were left desperate to avoid having to take delivery of actual oil because nobody needs it and there are fewer and fewer places to put it."

Over and above the chaos this caused in certain markets, not least of which in the oil market, we all know the conditions are unprecedented and we are learning all the time, but one thing I don't think any of us ever thought we should see, was a WTI price of -$37.63. As I always say though, "life is full of surprises!" It is worth pointing out that, at the time of writing, the WTI June futures contract has just risen above the $30.00 mark. What's a $67 swing in a few days between friends?

Chart 16: Cost of a barrel of oil in real terms ($)

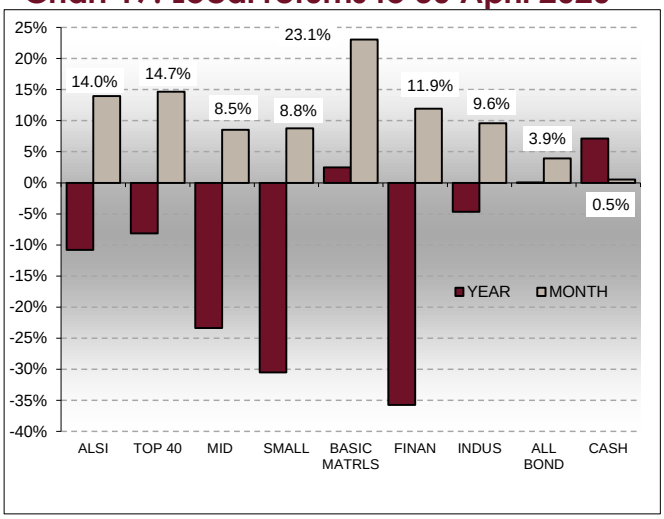


Source: Deutsche Bank

April in perspective – local markets

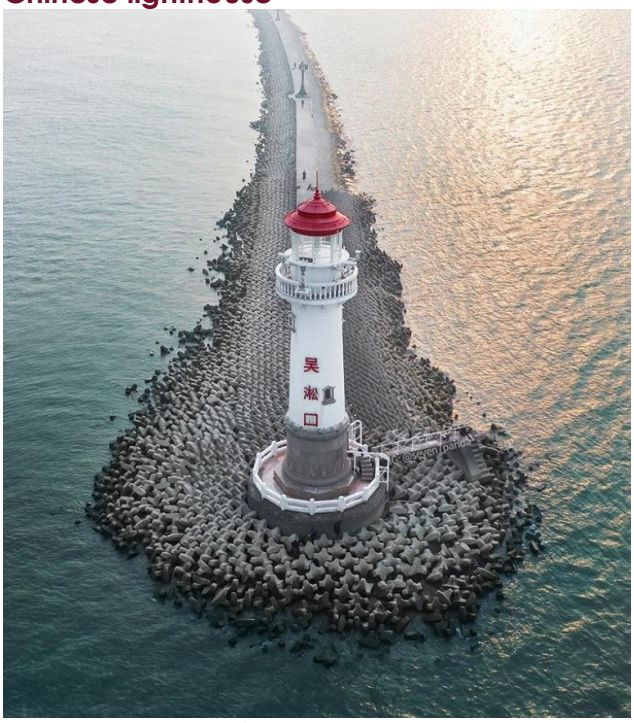
Turning to the local markets, the equity and bond market returns mirrored global ones. The All Share index rose 14.0% and the All Bond index 3.9%. The Gold index surged 50.9% during April, bringing its annual return to an astonishing 213.8%. The Basic Material index rose 23.1% during April, the Financial index 11.9% and the Industrial index 9.6%. The Mid and Small cap indices rose 8.5% and 8.8% respectively, but are still down 30.1% and 26.6% for the year-to-date. Following the rand's calamitous drop of 11.9% last month, it declined "only" 2.8% in April, bringing its year-to-date decline against the dollar to 23.9%.

Chart 17: Local returns to 30 April 2020



As we head through the current month, cynics would remind us of the adage "sell in May and go away". After the remarkable gains across markets worldwide in April, we would be inclined to think this might not be a bad strategy. Of course, our research and analysis needs to be deeper than simple adages. If the truth be known, we are very concerned about the economic cost of lockdowns, no more so than the one in South Africa. We are sympathetic to the loss of life around the world and the immeasurable hardship being endured by communities across the planet, but our immediate thoughts are on South Africa, and the prospects for the economy in the face of the current lockdown.

Chinese lighthouse



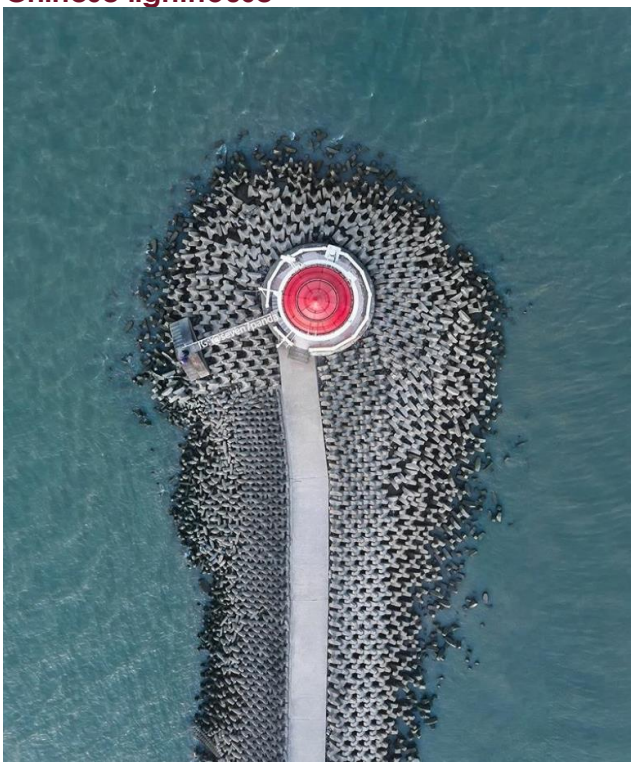
Instagram handle: @seven7panda

We cannot over-emphasize our concern about the economy and its future. We foresee millions of jobs being lost during the next few months, thousands of firms going bankrupt, starting with Small, Medium, and Micro Enterprises (SMMEs), and eventually social unrest and violence across the country. Government revenue is under enormous pressure – we believe government has no idea how badly their revenue will be affected – yet they have promised billions of rand in support and relief, most of which is unattainable due to the stringent regulatory and practical requirements. In any event much of this relief, at least to the corporate sector, takes the form of loans, begging the question how can small firms and individuals, who are now bankrupt, hope to repay loans in a few months' time?

State-owned enterprises (SoEs) have already started falling over (SAA is dead, as is SA Express, and the Land Bank has defaulted on its R13bn debt, to mention but a few) and more will follow. How on earth will government dig itself out of this mess, much of which is of its own making? We simply have no answer.

We do know, however, that it will be the poor and marginalized communities that will suffer the most, and those who have sufficient will be called on to "foot the bill" leading, in all likelihood, to another wave of emigration of the most productive employers and taxpayers. The future, at least in our view, looks bleaker than it has ever been; we foresee only disastrous times ahead. Yes, we are a nation of survivors. Yes, there is an unprecedented amount of goodwill being shown across all of our society, but we will need a whole lot more than that to survive in a world where, to mention but one example, the world's largest economy, the US, is forecast to decline by 30% in the current quarter alone.

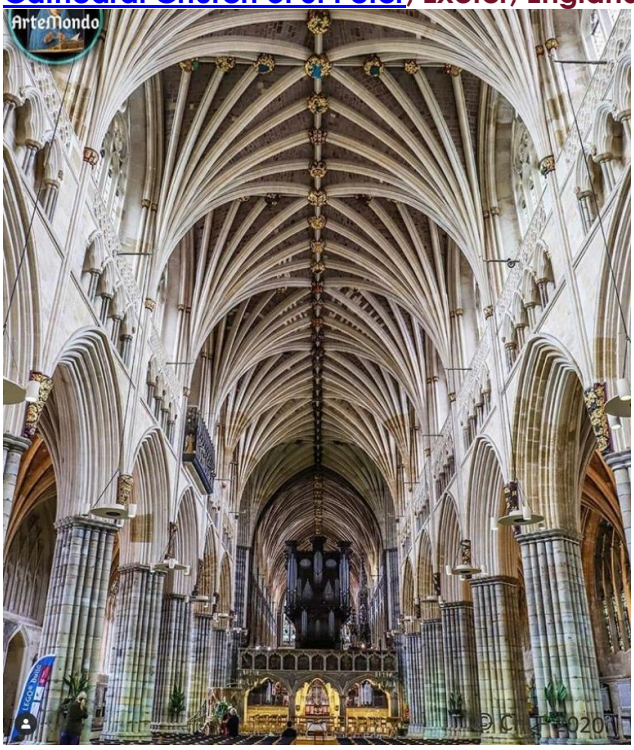
Chinese lighthouse



Instagram handle: @seven7panda

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Cathedral Church of St Peter, Exeter, England



Instagram handle: @chifsso

What concerns us most is that we don't believe government has a good understanding of economics, or remotely understands how the economy works. Consequently, policies will be misplaced, inappropriate, and will inevitably fail, at a time when, more than ever, we need strong leadership and policy support. We are bearing down on a disaster of epic proportions, as will become evident in the weeks and months to come. The rand will be the first to feel the pressure, as global investors repatriate scarce capital to less risky destinations.

While we are in no doubt that economic conditions in the rest of the world are hardly favourable, we do think stronger and more developed economies will cope better in the aftermath of the crisis, in what is going to be a long and very painful process of recovery. We will consequently continue to be cautious when investing the capital you have entrusted to us. There is no place of heroics in these markets. We will rather be cautious than adventurous, and will continue to monitor the world and its constituent economies, which are changing so fast it is difficult to keep track of it all.

For the record

Table 1 lists the latest returns of the mutual and retirement funds under Maestro's care. Returns include income and are presented *after* fees have been charged. Fund Summaries for each respective fund listed in the table, as well as all the historic returns, are available on our website.

Table 1: The returns of funds in Maestro's care

	Period ended	Month	Year to date	Year
Maestro Equity Prescient Fund	**Apr**	**9.2%**	**-5.8%**	**-10.8%**
JSE All Share Index	*Apr*	*14.0%*	*-10.4%*	*-10.8%*
Morningstar sector ave	*Apr*	*13.1%*	*-12.8%*	*-14.0%*
Maestro Growth Fund	**Apr**	**6.6%**	**5.9%**	**4.3%**
Fund Benchmark	*Apr*	*10.3%*	*-4.9%*	*-3.1%*
Morningstar sector ave	*Apr*	*9.6%*	*-5.1%*	*-4.1%*
Maestro Balanced Fund	**Apr**	**6.2%**	**5.1%**	**5.2%**
Fund Benchmark	*Apr*	*8.9%*	*-3.6%*	*-1.3%*
Morningstar sector ave	*Apr*	*7.9%*	*-3.6%*	*-2.0%*
Maestro Cautious Fund	**Apr**	**2.6%**	**2.2%**	**6.4%**
Fund Benchmark	*Apr*	*5.6%*	*-3.5%*	*-0.1%*
Morningstar sector ave	*Apr*	*5.6%*	*-2.2%*	*0.4%*
Maestro Global Balanced Fund	**Apr**	**7.9%**	**23.0%**	**24.9%**
Benchmark	*Apr*	*10.3%*	*22.1%*	*27.5%*
*Sector average **	*Apr*	*9.6%*	*15.8%*	*20.5%*

* Morningstar Global Multi Asset Flexible Category

Notwithstanding the returns listed above, we thought it would be appropriate to list our longer-term returns for our various investment solutions, shown in the following tables. All returns are for periods to 30 April 2020, and are taken from Morningstar's monthly unit trust survey. Returns are shown net of fees i.e. after all fees have been deducted.

"To achieve great things, two things are needed; a plan, and not quite enough time."
- Leonard Bernstein

Table 2: Maestro Equity Prescient Fund

Morningstar (ASISA) South Africa Equity General - April 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Equity Fund	***-5.8%***	***-7.0%***	***-10.8%***	***-5.9%***	***-5.0%***
Maestro Equity Fund benchmark	-6.4%	-6.7%	-9.6%	1.0%	1.7%
SA Peer Group Average	-11.6%	-11.7%	-14.0%	-2.5%	-1.2%
Maestro position within Group	23	37	43	113	98
Number of participants	169	166	158	134	105
Quartile	1st	1st	2nd	4th	4th

Table 3: Maestro Growth Fund

Morningstar (ASISA) South Africa Multi-Asset High Equity - April 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Growth Fund	***3.3%***	***4.8%***	***4.3%***	***4.4%***	***1.8%***
Maestro Growth Fund benchmark	-4.9%	-3.9%	-3.1%	4.4%	4.4%
SA Peer Group Average	-5.8%	-4.7%	-4.1%	1.8%	2.5%
Maestro position within Group	3	7	13	22	83
Number of participants	198	195	193	161	115
Quartile	1st	1st	1st	1st	3rd

Table 4: Maestro Balanced Fund

Morningstar (ASISA) South Africa Multi-Asset Medium Equity - April 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Balanced Fund	***2.9%***	***4.4%***	***5.2%***	***3.6%***	***1.8%***
Maestro Balanced Fund benchmark	-3.8%	-2.6%	-1.3%	5.1%	5.0%
SA Peer Group Average	-4.6%	-3.3%	-2.0%	2.9%	3.1%
Maestro position within Group	1	2	3	27	49
Number of participants	94	93	93	78	59
Quartile	1st	1st	1st	2nd	4th

Table 5: Maestro Cautious Fund

Mornignstar (ASISA) South African MA Low Equity - April 2020					
	3 mths	6 mths	1 year	3 years	5 years
Maestro Cautious Fund	***1.2%***	***3.0%***	***6.4%***	***5.3%***	***4.1%***
Maestro Cautious Fund BMK	-3.6%	-2.0%	-0.1%	5.4%	5.4%
SA Peer Group Average	-3.2%	-1.8%	0.4%	4.1%	4.4%
Maestro position within Group	8	11	9	34	64
Number of participants	156	153	150	130	94
Quartile	1st	1st	1st	2nd	3rd

Table 6: Maestro Global Balanced Fund

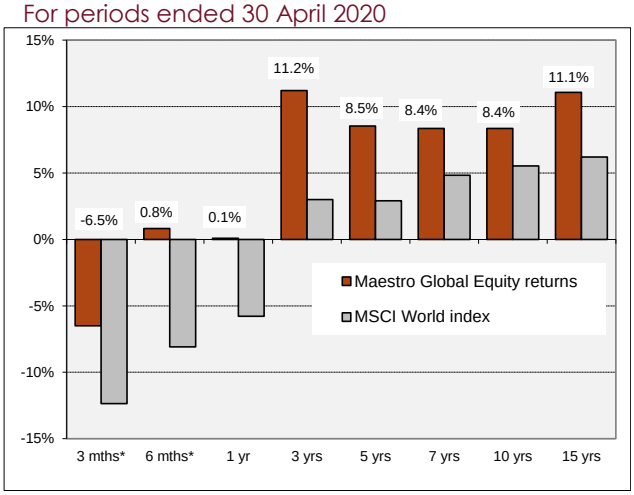
Morningstar (ASISA) Global MA Flexible - April 2020					
	3 mths	6 mths	1 Year	3 Years	5 Years
Maestro Global Balanced Fund	***15.7%***	***21.2%***	***24.9%***	***N/A****	***N/A****
Global Balanced Fund benchmark	13.7%	17.0%	27.5%	15.2%	12.4%
SA Peer Group Average	9.2%	12.3%	20.5%	12.4%	10.0%
Maestro position within Group	6	4	10	N/A	N/A
Number of participants	33	32	30	23	17
Quartile	1st	1st	2nd	N/A	N/A

File 13: Information almost worth saving

To end off with, and on a lighter note, here are some bits and pieces to show you that investment management can also be fun, and needs to be taken with a pinch of salt, otherwise it all becomes far too intense!

Chart 18: Maestro global equity returns

For periods ended 30 April 2020



* Un-annualised

Size counts; it really does

Did you know, for example, that the market capitalization (cap) or size of Amazon alone is now worth more than the entire Swiss Market Index (SMI) i.e. the Swiss equivalent of the JSE Top40 index? The SMI consists of huge pharma companies, banks, etc. – 20 companies in total – yet Amazon alone is bigger than the total of Credit Suisse, Nestle, Novartis, Richemont, Roche, UBS, and the other SMI constituents combined? You might also be interested to know that since 2002 Amazon has outperformed the SMI by 37% *per annum*, or a factor of 75 times over the entire period; in absolute terms Amazon outperformed the SMI by 7 538% during this period.

Speaking of size, are you aware that the market cap of PayPal Holdings, a global technology platform and digital payments company is, at $169bn at the time of writing, larger than that of Citigroup ($81bn) and Wells Fargo ($87bn) combined? So much for electronic banking "one day" becoming more important than traditional banks. As you can see, it happened a long time ago already.

Jesuit Church St Michael, Munich, Germany

Instagram handle: @angelo.passerini

The "chip war"

We note with great concern that the US is aggressively ramping up the rhetoric against China and Chinese companies again. One would swear a US election was not far away! One sector that is in the crosshairs of the Trump administration is the semiconductor industry. It is well-known that the only "building block" missing in the Chinese supply chain and the intellectual property (IP) "warehouse" is the know how relating to the manufacture of high performance semiconductors (semis). Semis are a key building block in tech hardware; a critical component of the supply chain. The US is only too aware of this, and explains why they are targeting this sector in an effort, at least initially, to stop the inexorable march by the world leader in 5th generation (5G) telecoms technology, Huawei Technologies, from stealing the march on US companies in the global race for the 5G network prize.

Leaving aside the bizarre and ridiculous reasons given by the US, and Trump and Trade Secretary Wilbur Ross in particular as to why Huawei should be denied access to US semi technology and IP, it is worth noting the following here: the global semis market was worth $412.3bn in 2019, with Chinese demand accounting for 35% or $144.5bn, of which 49% was derived from US sources. In other words, US firms shipped nearly $70.5bn worth of chips to China, or 37% of all US chip exports. Semis accounted for the largest share of US exports of all electronics products, and the fifth largest category overall (behind airplanes, refined oil, crude oil and autos). It is clear that, given the quantum of numbers, there are going to be a lot of casualties on both sides in the event that the "chip war" escalates. One hopes that Trump has done his homework properly. However, the rest of the global community will suffer as well. If Huawei's rate of deployment of 5G networks around the world slows, it means the adoption of 5G technology around the world will take longer to implement, leading to an opportunity cost for everyone.

Technology advances continues rapidly

I'm afraid the next item is two years late but I hope you still find it relevant. I was shocked to learn that such a tech development had already happened two years ago.

In 2017, China set a national objective of becoming the global champion in artificial intelligence (AI). It announced an initial team of national AI champions, and Tencent was tasked with leading the development of computer vision for medical diagnosis. That much we knew, seeing that Tencent is one of our largest holdings in our global equity portfolio.

Soon after, Tencent launched an AI medical imaging platform capable of diagnosing a broad list of illnesses, and a cloud-based ecosystem for sharing and collaboration between domestic health care AI companies.

And this is the part that astounded me: the same year (2017) *an intelligent robot developed by iFlyTek passed China's written national qualification exam for doctors*, in what was hailed as a game changer for the country's strained health care system. I don't quite know where that leaves all those training to become doctors, but it does give you an idea of the strides being made in the world of AI in general, with specific reference to the medical sphere.

Roof in the Munich Residenz, Germany

Instagram handle: @maik.wtf

The world according to Trump

I use *Intermezzo*, in case you haven't noticed, to record items of global and economic significance. It serves as a record of significant events, and makes for interesting reading when reviewing past editions.

One of the unfortunate aspects of our profession is that we have to manage money at the same time as Donald Trump is President of the US. No matter what our view of the man is, we need to monitor his utterances, given how significant the US economy is in global terms and of course how powerful the office of the President of the USA is. It is worth remembering, although if you observe Trump you could arrive at a different conclusion, that no matter who is in office, the "office" of the President is more important that its occupant. I suspect you know where this is going …?

I would consequently like to record one of the most idiotic and bizarre utterances by any President of the United States, for fear that future generations will simply not believe that anyone could ever say something so stupid. Alternatively we could adopt a Trumpian attitude and record his comments here, lest we miss out on his "great and unmatched wisdom" (another arrogant and marvellously idiotic Trump utterance).

So we heard about Trump's recommendation to take hydroxychloroquine in order to combat the coronavirus, which had the manufacturer scramble to warn against its use for this purpose. For South Africans echoes of the late Minister of Health Manto Tshabalala-Msimang's advice to eat beetroot, garlic and lemon as cure for AIDS are immediate and cringeworthy. Be that as it may, I am sure none of us would ever have dreamed we would hear the President of the mighty USA recommending we inject

disinfectant into our bodies, after some time in the sun as a cure for the virus. Yet say it he did.

After Bill Bryan, the acting undersecretary of science and technology for the Department of Homeland Security, explained during a briefing that new experiments show the coronavirus does not fare well under sunlight or heat, Trump went on to suggest that Americans who have the virus could treat it by going out into the sunlight on a hot day.

"There's been a rumour that – you know, a very nice rumour – that you go outside in the sun or you have heat and it does have an effect on other viruses," Trump said, before asking coronavirus task force coordinator Dr Deborah Birx "to speak to the medical doctors to see if there's any way that you can apply light and heat to cure, you know, if you could." Trump then asked Birx if she "ever heard of the heat and the light" having an impact on viruses. She responded, "Not as a treatment," before Trump asked her again to look into it.

"I would like you to speak to the medical doctors to see if there's any way that you can apply light and heat to cure, you know, if you could. And maybe you can, maybe you can't."

After Bryan talked about experiments in which, he said, disinfectants like bleach and isopropyl alcohol quickly killed the virus, Trump mused about whether disinfectants could be used to treat the virus in humans, asking whether there is "a way we can do something like that, by injection inside or almost a cleaning."

In a hasty "mop up" effort, Reckitt Benkiser, the British company that manufactures Dettol and Lysol, was forced to issue a statement urging people not to drink or inject the products into their bodies and directed readers to a website about coronavirus facts.

I am not sure what it says about the intelligence of the average American, but after Trump's comments, calls to emergency hotlines across the US spiked, and forced numerous agencies and companies to issue statements expressly warning against the injection of disinfectants. In New York, the city's Department of Health and Mental Hygiene said that in an 18-hour period the poison control centre recorded 30 cases. These included nine specifically about exposure to Lysol, 10 cases about bleach and 11 cases about exposures to other household cleaners. That compares with only 13 cases for the same time frame one year ago.

Be that as it may, aren't we blessed to be able to receive such profound wisdom from our leaders in general and Trump in particular?

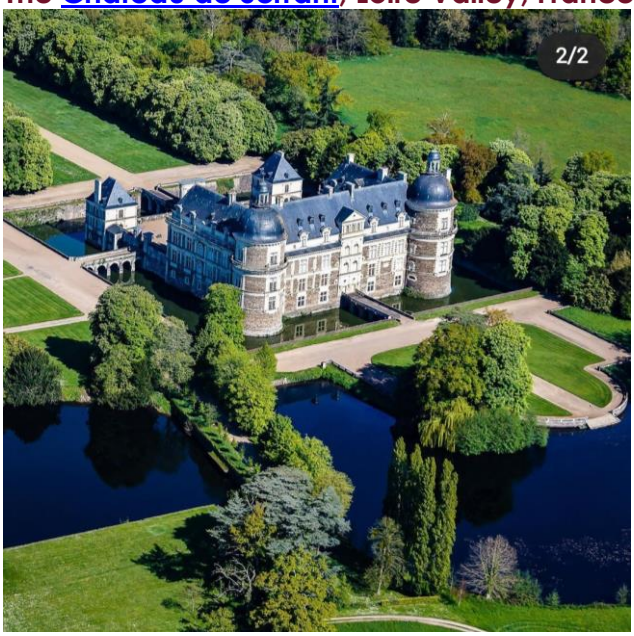
Kasteel Ooidonk, near Gent, Belgium

Instagram handle: @so_chateaux

The Chrysler Building, New York, USA

Instagram handle: @newyork_world

The Château de Serrant, Loire Valley, France



Instagram handle: @so_chateaux

So what's with the pics?

The photos this month are again of buildings; I have also inserted internet links into most of the titles, should you wish to visit them virtually as you sit at home in lockdown mode. I hope you enjoy them.