PRUDENTIAL **INSIGHTS**

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Coronavirus market sell-off

Global equity markets have taken a sharp downturn in reaction to the continuing spread of the Coronavirus in the past week, taking South African equities with them in the increasingly "risk off" environment. The FTSE/JSE All Share Index fell 11% in the week to 29 February, so that for the year to date our market is now down 10.5%. Investors are understandably concerned about this drop, particularly coming after some five years of weak returns from SA equities.

Consistently applying our proven investment process, especially in times of uncertainty

At Prudential we are continually monitoring the markets to ensure we protect and grow our clients' portfolios. In times like these, as consistent, valuation-based investors, we seek to identify good opportunities to buy more assets at attractive prices with the appropriate risk for our clients' benefit. We do not panic, nor do we look to change our investment process to try to accommodate the latest news and views on what is happening. Rather, we focus on valuations and our proven investment process.

Following the sell-off the SA equity market has moved from being cheap relative to its own history to being even cheaper, on the basis of several valuation measures. We were already overweight SA equities in many of our client portfolios (where mandates allowed) prior to the downturn. We would like to report the following:

- We continue to evaluate investment opportunities within our proven investment framework, and believe the risk positions in our portfolios correctly reflect the medium-term outlook and opportunities.
- While it is impossible to predict further sell-offs, the moves were extreme and may have been overdone. There will undeniably be some damage to the global economy (and many unforecastable developments as the situation unfolds), but it is noteworthy that various global stock markets including US and Chinese markets already started to recover.
- The news is currently dominated by corona virus-related items, helping to instil panic among investors. As always, we are working to separate short-term “noise” from those serious developments that will have a fundamental longer-term impact on company earnings, and we will incorporate these insights into our investment decision-making.

Investors shouldn’t panic

We would caution investors not to panic and sell their assets in the downturn, since they could lock in short-term losses. Rather, stepping back and taking a long-term view will help to weather the volatile conditions.

It’s worth remembering that this is only one of many “epidemics” that the world has experienced since the SARS outbreak in February 2003. Among others, we have also had the Avian flu (H5N1) in 2006, the new strain of Swine flu (H1N1) in 2009, the Ebola outbreaks of 2014 and 2018 and the Zika virus in 2016. Global equity markets weathered all of these well, even over the shorter term. And over the longer term, the S&P 500 Index is now valued at nearly four times its level of 31 January 2003 when SARS first hit. Equally, the FTSE/JSE ALSI has returned 14.1% p.a. from then until 28 February 2020.

I would like to share a brief comment from M&G Investments, our largest shareholder:

"*The real world impacts of the coronavirus are tragic and profound, and today's investment mood has changed dramatically from the relative comfort of only a month ago. Ultimately, however, the greatest opportunities occur when investors (including ourselves) are at our most fearful, and in that respect this is an episode that is still developing.*"

For more information please feel free to contact our Client Services Team on **0860 105 775** or email us at query@prudential.co.za.