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Impact of the Coronavirus pandemic on financial markets and your investment

In March the negative impact of the Coronavirus pandemic made itself felt in nearly every corner of the globe, taking a heavy toll on human lives and economic activity as global lock-downs were implemented to help prevent its spread. Because of the fear and uncertainty over its effect on economic growth, with consumers and businesses being hit hard around the world, most financial assets have experienced wholesale selling, resulting in very sharp and rapid declines in capital values.

The table below shows the return impact of the Coronavirus crisis on each asset class for 2020 so far to 31 March.

ASSET CLASS	YTD PERFORMANCE AS OF 31 MARCH 2020 (% TOTAL RETURN IN RANDS)
SA Equity (FTSE/JSE Capped SWIX)	-26.6
SA Property (All Property Index)	-48.2
SA Bonds (All Bond Index)	-8.7
SA ILBs (FTSE/JSE ILB Index)	-6.6
SA Cash (STeFI Composite Index)	1.7
Global Equity (MSCI ACWI Index)	-0.2
Global Emerging Markets (MSCI EM Index)	-2.4
Global Bonds (Barclays Aggregate Bond Index)	27.0
Global Property (FTSE EPRA/ NARIET Global REIT Index)	-10.8
Rand/US dollar (price move)	-27.6

Source: IRESS

As you can see from the table, other than SA cash, all local asset classes have suffered severely. Global asset returns in rands have been cushioned by the 27% depreciation of the rand. Despite our best efforts, given the magnitude of the selloff, our unit trust fund returns have unfortunately also been significantly impacted. We know our investors are very concerned about this performance, and we understand your discomfort. We want you to know that we are doing all we can to protect our client portfolios from further downturns while also carefully positioning them to once again meet their risk and return objectives over time.

As an investor, it's important to remember that, unless you sell your holdings at these exceptionally low values, this loss will very likely remain only a paper loss, and will not be permanent for long-term investors. We would certainly caution you not to sell at these levels. At Prudential we have been taking advantage of this once-in-a-generation opportunity to buy high-quality SA equities and bonds at valuations cheaper than they were during the Global Financial Crisis (GFC). We are confident that at some point asset prices will rebound, as uncertainty abates and the global recovery from the pandemic gets underway, assisted by the massive government support measures we have seen enacted around the world.

In fact, we have already seen many asset prices and fund values start to rebound significantly off the lows reached during March. For example, SA equities (the FTSE/JSE Capped SWIX Index) had regained some 25% at the time of writing. SA listed property had rebounded by 21.3% (the All Property Index), SA nominal bonds by 9.6% (the All Bond Index) and inflation-linked bonds by 17.1% (the ILB Index). Clients who may have

sold during the panic would not only have locked in losses, but would also have missed out on these gains.

Our investment team remains focused on actively managing our portfolios to take advantage of the excellent opportunities that are arising from such cheaply priced assets. In these testing conditions, we continue to consistently apply our valuation-based investment process, focusing on selecting quality companies with strong balance sheets and cash flows that are most likely to weather any prolonged downturn. We are confident that from their current valuation levels, most asset classes (apart from global bonds) are set to deliver above-average returns over the next five years or so. In turn we are harnessing that potential by buying up assets for our client portfolios so that they will be able to meet (and possibly beat) their return objectives and our clients can achieve their investment goals over time.

You can learn more details about our views on investing during the Coronavirus crisis and how we have been managing your funds in the many articles and videos we have been regularly posting on the **Insights** section of our website. And soon we will be releasing our quarterly fund commentary and client magazine, “Consider this”, with additional investment insights.

We wish you, your family and communities health, strength and patience in managing the crisis in the weeks to come. It is by supporting each other and abiding by the regulations that we will “lower the curve” and avoid the worst that the pandemic might bring.

For more information, please contact your financial adviser, our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.