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CMEFS INVESTMENT NEWS

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Hello all and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's quickly see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-10.91%	-12.70%
CMEFS Flexible Fund	-2.28%	-1.72%

There is so much to write about that I find myself perplexed as to just what subject or issue I should address in this week's issue of Investment News.

Maybe I should just follow on from what I discussed in the general newsletter and build on that.

So here goes.

Oh, and you might be wondering why I am not yet talking about fund performances, asset classes, currencies, and risk exposure in these last few editions, so let me talk to this first.

I, like SO many others (provided they are honest of course!), can have no clear idea yet of just what lies ahead. Not from an economic standpoint, as that is clear, we are already in deep "doo-doo" globally, so to speak. And getting deeper into it by the day.

What we don't know exactly, or even vaguely I think, is just how we are going to dig our way out of the mess we/this virus (questionable) have created for ourselves.

As mentioned in an earlier newsletter, the world was ALREADY in serious financial trouble before the COVID-19 pandemic hit, and South Africa perhaps even more so. Remember Eskom? SAA? The Moody's downgrade that moved SA's international debt down to "junk" status. The fact that SA was already in a technical recession. And so on and so on.

Now overlay that with what we are currently experiencing. **Massive additional** job losses. Businesses of all sorts, both large and small, going to the wall, or just simply closing, never to return. Revenue collections to drop by not less than a third this year whilst there is increasing pressure on the government to spend even more money they did not and do not have in the first place to stave off hunger and starvation amongst the mass of newly and existing unemployed. Again and so on.

And this is not unique to SA. The US is dealing with more than 30 million newly unemployed Americans. That's a BIG number. And here's an even bigger number. In India, 122 million people lost their jobs last month as a result of the nationwide lockdown.

And all these 30 million Americans and 122 million Asians, and all of the other millions of people worldwide who are newly unemployed are going to need to be fed – not out of loans – but out of government hand-outs, all of which will be funded out of new government loans taken – if they can get them.

We are sitting on a ticking time-bomb. We can only hope, pray, and do our level best to ensure that we somehow "get it right" and it doesn't go off.

This MIGHT sound like a good time to get out of any investment that has any sort of exposure to what are often considered to be risky assets, such as bonds, equity, and property, and head straight to the bank.

But consider this, we would be doing this on the pre-supposition that "the financial world is set to go to hell in a bucket."

However, if this indeed turns out to be the case, it would be prudent to keep in mind that banks don't sit on the cash that you deposit with them.

They lend most of it out to people who want to buy houses, cars, and other assets as well as to those who want to fund business enterprises.

Now if businesses go out of business, and people lose their jobs "*en-masse*", then none of these people will be able to give the bank back the money that you deposited with them.

What then is to happen? Maybe we will for the very first time see a large SA bank fail, as so many have done and continue to do Internationally. We have just been very "protected" up until now.

And should this hopefully unlikely scenario play out, then you will have lost the entire amount of your savings you had with the bank as there is no "deposit insurance" in place in SA.

And even if the South African Reserve Bank and the Government were pressed to intervene in these circumstances, as has happened in other countries, they just don't have the resources to "pay back all the money" and what usually happens is that they agree to "protect" deposits up to (say) R50 000 in value.

As the saying goes, "when the sky is falling, where do you run for cover?"

And it is just this that is occupying my mind day and night. I DO NOT want to simply move you into cash and then the bank with whom this cash is invested fails, because I know that this is a loss that will be non-recoverable under ANY circumstance. It is a **PERMANENT** loss.

Whereas if a share or a bond does lose some of its value, whatever this "some" amounts to, firstly, you will not have lost ALL of your money, more so if you have more than (say) R50 000 invested, and secondly, you are at least in with a fighting chance that the value of the share/bond will recover over time, thus allowing you the possibility of recovering from a possible temporary partial loss, than to experience a FULL and PERMANENT loss.

It needs to be borne in mind that not ALL businesses have been blown to smithereens, such as SAA and the global airline industry. In fact some are thriving, such as the network providers where demand for data has grown exponentially. Health services where the demand for Personal Protective Equipment (PPE) has grown exponentially. Manufacturers of hand-sanitisers are also doing extremely well right now. And as for food producers and the retail industry distributing this food, well, the time is never going to come where we do not need to EAT.

So I have no doubt at all that asset managers are thinking along exactly the same lines as I am, and "placing their bets" accordingly.

It is, for example, interesting to note that although the ALSI has **dropped** a further 1.79% over the period of this week, the CMEFS Flexible Fund has **increased** by a further 0.56%, which is very likely as a result of the start of the re-positioning of asset classes by the fund managers.

A further thought to bear in mind is that bank interest rates in the US, the UK, and other major developed economies are at or near zero.

For example, here are the rates being offered right now by the largest bank in the US, JP Morgan Chase. And you would want to be with a bank "too big to fail" in these uncertain times.

Deposit term in years	Rate
1	.01%
3	.01%
5	.01%
10	.50%

The reason they are at or near zero is that the US Government (and other developed economies) is now just so deep in debt that any upward movement in interest rates would prove disastrous to the US, so it is in their interests to keep rates as low as possible, for as long as possible. And of course, they are getting even deeper in debt by the day.

And then, of course, we have the Swiss banking experience where clients with deposits above 2 million Swiss francs with Credit Suisse are **charged** -0.75%pa on their deposit and -0.85% if the deposit is above 10 million Swiss francs.

There are two ways to look at these rates from a SA experience. One is to wonder if our rates are going to have do drift even further downward than they already have as a result of our increasing debt burden, thus putting pressure on pensioners income who depend on the interest paid on their deposits for survival.

On a R1 000 000 deposit, a 1% drop in the rate of interest results in a loss of monthly income to the pensioner of R833 per month. This is a major loss of monthly income, bearing in mind that costs continue to rise monthly.

And if one looks at what has happened so far this year, one can see that this process of a major bank rate reset has already started

Date	Prime Rate	Difference from start of year
01/01/2020	10%	0
17/01/2020	9.75%	0.25%
20/03/2020	8.75%	1.25%
15/04/2020	7.75%	2.25%

Using the R1 000 000 deposit example used above, this would result in a loss of monthly income over the period of R1 875 per month. Ouch!

The second way of looking at these falling interest rates is that if they somehow manage to stay above or around 5% or so, for someone retired outside of SA earning either a negative or zero rate of interest, and presuming a fairly stable Rand, 5% is a VERY attractive rate versus ZERO, and international money will once again find its way back into our bond and equity markets, causing these asset classes to rise, despite our weak economy and the fact that out bonds have been rated as “junk”.

As an aside, I have to wonder why all of the world's bonds in issue at the current time have not also been rated as junk as they are going to be equally difficult to repay, if not more so, than our SA bonds.

A further thought to keep in mind is that in all of this there is a real concern that people will at some point lose faith in their currencies – even more likely if governments decide to try to print their way out of debt.

And when this happens, the really big money runs to gold, as gold remains the international "currency of last resort", which pushes the price of gold up.

This is due to increasing demand as big investors dump paper money in return for the comfort of owning a "hard asset" that cannot be manipulated by governments worldwide.

Clearly this is already happening.

And SA will, and already is benefiting from this trend, so it's not ALL bad news.

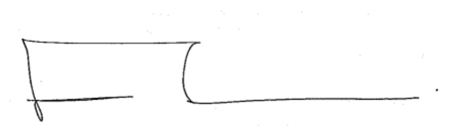
And I find I have once again exceeded my intended number of pages, but as I said right at the start, there is just so much to write and think about!

So let me end here with the comment, "We live in interesting times indeed!"

I trust you enjoyed the read.

Until next time then, do take good care of yourselves.

Kind regards



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