



CMEFS WEEKLY INVESTMENT NEWS

21-08-2020

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

Before we go into this week's discussion, let's 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	+0.58%	-1.14%
CMEFS Flexible Fund	+0.25%	+0.39%

Despite all the work that has been done on the virus to date and despite the fact that a working vaccine is ostensibly on its way soon (ignoring the Russian vaccine for the moment), there is still so much that is unknown not only about the virus itself, but also about the medium to long term effect trying to contain the spread of the virus is having on the global economy, along with the rate at which it will recover.

It is for this reason that we have taken the extremely defensive position that we have taken for the time being as it is one thing for governments, including our own, to generate vast quantities of new debt whilst the virus is at its "peak" globally (ignoring for the time being the possibility of a second, or even third wave) and at the forefront of everybody's mind, and quite another when things do finally "settle-down" into the "new-normal" (whatever that might be) and it comes time to account for this additional debt that has been created.

We all know that quite literally millions of individuals globally who have had to remain under lockdown for a period of time were either fully or partly funded through government subsidies (or in our case the Unemployment Insurance Fund), but that is rapidly coming to an end, and not all will be able to return to jobs they have lost.

We also all know that many industries and companies have been heavily subsidised in the same way so as to ensure that they are still around "when we come out of the other end of this".

We now also know that "when we come out of the other end of this" is still a very long way off.

For example, (if my memory serves me correctly) Professor Linda Gray, President of the South Africa Medical Research Council (or if not her someone of equal status) has said that even if a “working” vaccine were found tomorrow and was made available here in South Africa immediately, the most optimistic view would be that it would only start to be available to the general public (a Dischem visit was specifically mentioned) by the start of the third quarter of next year.

And that, people, as I said earlier, is a very long way off from an economic point of view.

As a side note on the vaccine, as a reminder, a Corona Virus is essentially a “cold or flu” virus.

It just happens to be a new (novel) strain of the same family of viruses.

The reason we still get colds and flu every year is that to the best of my knowledge we have not yet developed a vaccine against the common cold.

Although we have developed a “vaccine” against the annual flu virus, research has shown that it is at best only around 40% effective against whatever strain happens to be circulating at the time (which is certainly better than nothing!) and that because the flu virus is constantly mutating, we need to have to be vaccinated annually with a new vaccine as last year’s flu virus will have since mutated.

Although (as I understand it) a viral mutation is not in and of itself necessarily threatening or dangerous (as apparently, this is what virus’s do all of the time) it is quite an eye-opener to know that somewhere towards the end of April, researchers in Iceland were able to determine from the virus’s DNA at the time that the virus by then had already undergone 243 (not a typo) mutations.

Viruses it seems are in a class of their own. If one thinks only of **HIV** (the human immunodeficiency virus) this has now been with us for 40 years or so with no workable vaccine in sight, mainly because of its ability to mutate very rapidly.

And interestingly, although there is a treatment for it, (antiretrovirals) there is still no cure for it.

And keeping in mind all of the above, here we are saying that we will have a workable vaccine in place before the end of this year.

Although I very sincerely hope so, I have to wonder if we are not being just a little bit over-optimistic.

Again, we will just have to wait and see.

In essence, what I am saying is that the recovery we are now seeing in stock prices around the world, with some markets (unbelievably!) even reaching new all-time highs, are premised on us finding the proverbial “philosophers’ stone” in so far as a “silver bullet solution” to the virus is concerned, along with the fact that somehow, all the jobs and industries that have been lost along the way will not only return to pre-Covid-19 levels but even exceed these levels...significantly.

It also assumes that all of the new debt that has been incurred by governments worldwide (including our own) will somehow evaporate, and to paraphrase from Hosea 13:13, "disappear like the morning mist like dew in the morning sun, like chaff blown by the wind, like smoke from a chimney."

I think not.

I think that we are only going to start to feel the full impact of the withdrawal of all of the subsidies as well as the new debt burdens created, over the next 6 months or so, as they simply cannot continue, even with the best will in the world.

However, in every adversity there is opportunity, and we are actively exploring what opportunities might be presenting themselves in these next six months so as to be able to take maximum advantage of them, but without any significant risk of loss of capital.

I hope you enjoyed the read.

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

Kind regards, Nine, Charles, and all of us at CMEFS.