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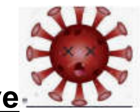
CMEFS WEEKLY NEWSLETTER – FRIDAY 12/11/2021

In this edition: A Covid-19 Cure/Market Outlook/The cost of going green/The "Two-Pot" Retirement reform proposals/Regulation 28-The good news/The markets

Hello everyone and welcome to this week's edition of our newsletter. Before we go into this week's news, let's see how the CMEFS Flexible fund has done for the year to date as compared to the All-Share Index (ALSI), Money Market Funds, and inflation, bringing all fees to account.

From 1 Jan to	ALSI actual return to date as %	ALSI projected annual return for the full year as %	CMEFS Flexible Fund actual return to date as %	CMEFS Flexible Fund projected annual return for the full year as %	Money Market actual return to date as %	Money Market projected annual return for the full year as %	Cost of Living Increase for the period as %
End Jan	5.04	82.90	0.55	6.95	0.21	2.52	0.34
End Feb	11.33	95.02	1.05	6.78	0.39	2.34	1.02
End Mar	11.83	47.32	1.27	5.47	0.61	2.45	1.71
End Apr	12.00	36.00	1.91	6.15	0.83	2.48	2.39
End May	12.27	29.45	1.99	5.09	1.05	2.53	2.47
End June	10.58	21.16	2.31	4.90	1.26	2.52	2.73
End Jul	14.66	25.12	3.03	5.47	1.47	2.52	3.84
End Aug	11.45	17.17	3.64	5.72	1.68	2.53	4.26
End Sep	6.90	9.20	3.76	5.25	1.91	2.54	4.52
End Oct	12.36	14.83	3.94	4.94	2.14	2.57	
04/11/2021	14.25	17.10	4.03	4.97	2.18	2.62	

A Covid-19 cure *and* a preventative 

In the fight to see the end of Covid-19, there have been two major recent breakthroughs:

1. Regeneron's cocktail. It has been shown that a single dose of Regeneron Pharmaceutical's recently developed antibody cocktail (not a vaccine) reduces the risk of ***becoming infected with the virus*** **by 81.6%** for up to 8 months after taking the dose.

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2. The Covid pill. If you are unvaccinated, not able to access the anti-body cocktail just yet, find yourself in the Covid-19 high-risk group and are unfortunate enough to catch the virus, the good news is that both Pfizer and Merck have developed a pill which has been shown ***to reduce the risk of hospitalization and death by up to 89%*** in such instances. The pill is already in use in the UK and Pfizer have applied for emergency authorization in the US from the FDA.

   These are both amazing leaps forward and let's hope by the end of next year latest, when these cocktails and pills become more readily available, we will have finally seen the back of this nasty virus.

The cost of going green: 

Beware the unintended consequences of good intentions.

Bleeding as we are as a result of the current price of fuel with Brent crude trading around the US$80 per barrel mark, the not so good news is that this week, Bank of America raised its Brent crude oil forecast to $120 per barrel by mid-2022. This is a frightening figure and I can only hope they are wrong. But why is this? There is (still) plenty of oil, coal and gas in the ground, so why are prices rising to the extent that they are and as fast as they are?

And no, it's not attributable to the "post" Covid-19 global economic recovery. Simply put, those countries reliant on income earned from fossil fuels have been put on notice by governments worldwide that their "time in the sun" is rapidly drawing to an end as we transition globally from being 100% dependant on fossil fuels to cleaner and more sustainable energy sources, such as Solar, Wind, Water and Nuclear energy.

Put yourself in the shoes of those currently in the fossil fuel industry. At some point demand is going to fall to the point where existing revenue streams are going to dry up almost, if not completely, and when that happens, what then? Where are the Arabic countries going to be, for example, when their revenue streams they derive from oil dry up? They do not have and cannot have, due to both geographical and climate considerations a (for example) strong manufacturing or farming industry to fall back on.

So, while they (and others) try and figure this out, they have in the interim figured out that they need to maximise gains from these resources while they can. "Making hay while the sun shines", so to speak. And so, they have. And will continue to do so.

Usually what would happen when prices rise to this extent, is that competition comes along to drive prices down again. But not this time. And likely never in this particular instance. Who in their right mind is going to drop billions of US$ into ***any*** industry that is under threat of complete extinction in the near future?

So, unless governments world-wide can give the necessary assurances to those governments reliant on the revenue generated out of the fossil fuels industry that the transition to more sustainable sources of energy will be made in such a manner as to do as little harm as possible to their economies, there is little likelihood of prices moderating in the foreseeable future.

Buckle up. 

The “two pot” system and retirement reform proposals 

Discussions are under way between government and the retirement industry to allow retirement fund members to be able to access some of their retirement funds without necessarily resigning from their employ or retiring from the fund. The financial stresses brought about by the Covid-19 pandemic have been the catalyst for these discussions. In a nutshell, the parties are proposing that retirement fund savings find their way into “two pots”. The first, and no doubt smaller of these two pots will hold savings that will be accessible to fund members ***under certain conditions yet to be defined***. The second, larger pot will hold savings that will not be accessible up until the member retires from the fund. We will keep you updated on the details as they become known to us.

Changes to Regulation 28 of the Pension Funds Act 

It was feared that changes to regulation 28 of the pension funds act would force pension funds to invest pension money directly into infrastructural developments. Not a problem on its own, but given our history of roads and bridges being paid for and never built, a major concern for pensioners and managers of pension fund monies. However, that concern has now fallen away in that the changes to Reg 28 give the pension fund industry more leeway and the opportunity [thus they are NOT forced to] to increase investment in infrastructure by increasing the proportion of funds (up to 15%) they are allowed to invest in asset classes other than the traditional top three – shares, bonds and property. So good news on this front.

The Markets:  Here are some extracts from a recent [August 2021] opinion expressed by a US based doyen of the financial services industry, one Jeremy Grantham, who has called it right more often than not.

“I think it’s clear that we’re deep into bubble territory… most of the data suggests that this is the new American record for **highest priced stocks in history** [ever, no matter how far back you go] …Then there’s the crazy behaviour… high participation by individuals, enormous trading volume in penny stocks, enormous trading volume in options, huge margin levels, peak borrowing of all kinds…We’ve checked off all the boxes. Now the question is how high is high?...Keep in mind that the peak has no bearing at all on what the fair value is. **Only the pain that you experience as it finds its way back to fair value…”**

I remain conservatively invested. I don’t like pain. Neither do you, I suspect. I trust you enjoyed the read. Until next time then, do take good care of yourselves. Kind regards. Nine, Charles and the team at CMEFS.