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Dear Clients, Consultants and Administrators

DON'T PANIC OVER MARKET VOLATILITY

After a strong start to the year, global equity markets pulled back sharply on Friday, Monday and Tuesday, but seem to have stabilised today. The MSCI All Countries World index has lost 5% since the start of February, and the sell-off included a "flash-crash" on the New York Stock Exchange on Monday when programme trading caused a 6% slump in minutes, before recovering somewhat.

Below is a comment from Dave Mohr, our Chief Investment Strategist:

> "The jitters on equity markets were caused by rising yields, as bond markets priced in higher interest rates due to stronger economic growth in the US, Europe and elsewhere. The sell-off accelerated after Friday's US employment report that showed that wage growth had jumped to 2.9%, the fastest pace since 2009 (but not a historically high rate). Central banks including the US Federal Reserve place great weight on the Philips Curve - the idea that rising wage growth will translate into higher inflation. Hence the market worries that the Federal Reserve will now hike interest rates faster than expected. However, the evidence that wage growth causes inflation is ambiguous, and central banks are still likely to proceed gradually and carefully in removing the post-Financial Crisis emergency stimulus, especially if market volatility persists. Importantly, the sell-off reflects investors' fear of where interest rates could move to, it is not a response to what the Fed or other central banks have done or said they will do.
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> Low bond yields supported the post-Financial Crisis equity rally by lowering companies' borrowing costs, but also by making equities relatively more attractive as equity earnings yields were (and still are) well above bond yields. As bond yields rise, equities could in turn become somewhat less relatively attractive. However, bond yields are rising for "good" reasons (i.e. a stronger economy) rather than "bad" reasons (surging inflation). A recession, falling company profits and a major bear market are highly unlikely. The market rally of the past few years occurred with historically low volatility. It is to be expected that volatility would return at some stage, and after the strong gains of the past few months a correction is not only normal but welcome in the sense that it prevents investors from getting carried away. But it is never pleasant.
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> Apart from being impacted by the shift in global investor sentiment, the JSE has also been affected by a number of stock-specific issues over the past two months. These include the Steinhoff collapse, the short-seller's negative report on Capitec, and a similar loss in confidence in the resilient stable of companies. The share price of Naspers, the largest on the JSE, has also declined this year despite the fact that the share price of Tencent has risen. The stronger rand over this period has also weighed on rand-hedges.

> The sudden jump in market volatility and equity sell-off over the past few days reflect a re-pricing of interest rate expectations, but the economic fundamentals remain solid and this means companies can still grow profits, which is what long-term investors should care about. Short-term moves are usually driven by sentiment, and in this case exacerbated by the unwinding of trades that bet on falling volatility."

No-one knows what the next few days hold and therefore diversification is always important. Our Funds are appropriately diversified and investors have no reason to panic. The underlying picture remains quite healthy and big shifts in asset allocation or investment strategy are not necessary.

Kind Regards

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