Seed Weekly

17 March 2020

Yes, This Feels Like a Category 7 Hurricane

At an internal meeting on Monday morning we discussed the global panic as economies are shutting down, due to the spread of the Corona virus. But possibly even more virulent, is the panic in the hearts of people. And panic typically leads to all sorts of irrational behaviour.

While we all need to be extremely cautious about the spread of the Corona virus, it's the panic in heart of people that we need to curtail as far as is possible.

Regarding Emergency Measures Relating Directly to the Covid-19 Virus

- **The interest of our clients, staff and various work colleagues**

  Along with many other businesses, we have to put the health interests of our clients, staff and various work colleagues first, and so along with many businesses, will be limiting face to face meetings as far as possible.

  While many of our staff will still work from the office, they have the option to self-isolate, and work from home. We have also put a hold on all internal flights until further notice.

  Hygiene measures in the office have been escalated.

- **Operational continuity**

  As a business we have a business continuity plan in place and now we are starting to put this to the test. We do have the ability for the most part to work remotely with very little disruption.

  We have proper backup procedures in place for all client data and as a business we are well capitalised and prepared to weather this storm.

Regarding the Spread of the Virus to Financial Markets

Clearly of major concern to us and our clients is the action on global financial markets. The last time that we saw this was in the 2007/2008 global financial banking crisis – but yet, in so many ways, this feels worse.

When an exogenous shock of such major proportion results in an almost complete shutdown of businesses and the movement of populations, then it is understandable that market prices fall substantially on expectations of earnings collapsing.

The panic is clearly evident in the volatility index – the Vix – known as the fear index. This is an index of the market's expectation of 30-day forward looking volatility.

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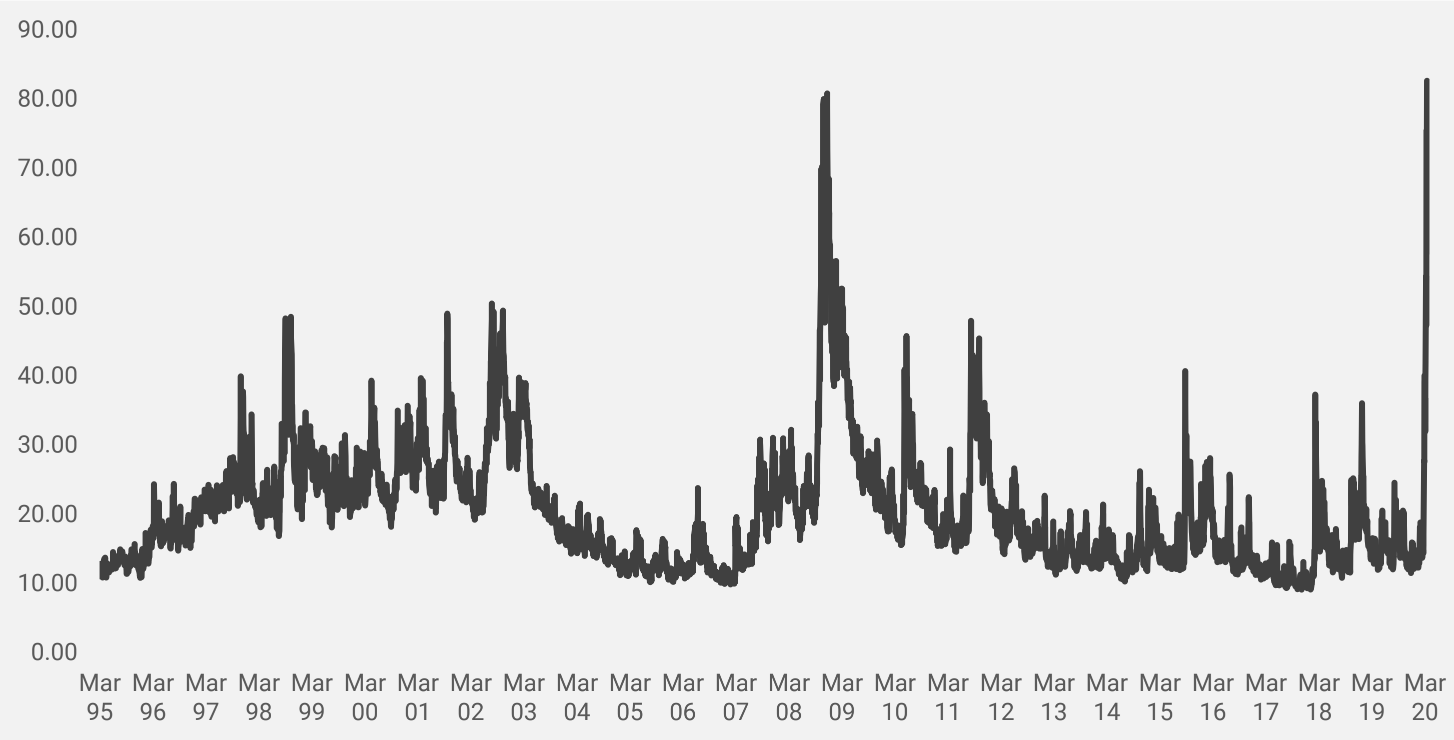
Chart : Market Volatility (VIX)



Source : Seed Investments (16 March 2020)

But what we do know from history is that not only is humankind ingenious, but it is also resilient and resourceful – especially in difficult times. There are ALWAYS opportunities that come from times of distress.

The Global Market dislocations have highlighted the following areas that I want to explore in the coming weeks and some thoughts on how we should be thinking about investments –

- **A substantially over leveraged global financial system now exposed by the global shutdown**

  How did we possibly get to this extremely overindebted position and what does this mean for our investments in light of solvency and liquidity issues in the global banking system?

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- **Zero interest rates and further quantitative easing**

  What does global zero interest rates mean for global and local investment returns? What are the likely consequences for various types of investments when central banks continue to print trillions, reduce banking reserve requirements and extending global swaps?

- **Monetary stimulus turns to fiscal stimulus**

  Globally we are starting to see pressure on governments to bail out their citizens. This comes in the form of more tax cuts, governments running huge deficits as they receive less tax income than they spend, universal basic income to the man in the street and more company bailouts to large companies.

- **Which leads to inflation or maybe more deflation?**

  As we have seen in the past more money in the system does not automatically mean more inflation. Counter forces to inflation include a huge drop off in global demand, a Chinese economy under pressure and commodity prices such as oil at multi year lows.

- **Against this very volatile backdrop, in a world where investors are not being paid a return on their hard-earned savings, and indeed need to take on additional risk to generate adequate inflation beating returns, what should investors be looking out for?**

  Where should investors store their savings for future consumption without losing purchasing power and looking at the difference between capital or investments assets on the one hand and store of value assets on the other.

I will unpack these and other issues over the coming weeks. In the meantime, we have our heads down updating our consideration of both valuations and risk across each asset class and making various changes to our portfolios, where necessary.

As mentioned last week, unless you require more liquidity now – it is important to keep looking at your investments with a reasonable time horizon in mind. We full appreciate that this is not easy when prices have come down so sharply, but has legendary investor Warren Buffett has quoted, "*Remember that the stock market is a manic depressive.*"

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As always, and especially in these more troubling times, please do not hesitate to contact any one of the team or myself. Alternatively, feel welcome to contact our offices on via telephone on +27 21 914 4966 or via email on info@seedinvestments.co.za.

Kind regards,

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Director & CIO

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