Cornhill Management

View from the Dome

Newsletter, May 2020

Sustainable funds hold up in pandemic market test

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SUSTAINABLE FUNDS HOLD UP IN PANDEMIC MARKET TEST

As we wrote last year in View from the Dome DEC 2019, sustainable funds are becoming more popular with investors as awareness grows of the impact of many human and corporate activities on the environment, as well as wider social issues such as poverty and inequality.

But until a few weeks ago, many of these funds had not faced a severe market downturn. We take a look at how they have fared compared to their conventional counterparts during the coronavirus crisis and what this performance might mean for investor strategies going forward.

The Covid-19 pandemic has wrought havoc in markets and many investment funds took a hammering in the first quarter of the year. But in arguably their first big test of performance during a bear market, sustainable funds proved comparatively resilient, outperforming conventional peers.

According to research by Cazenove Capital, in the US alone, net flows into sustainable funds stood at USD 20.6bn last year, which was a four-fold increase on the previous year.

However, many investors had expressed concerns that sustainable or ESG (environmental, social, governance) funds had not really been exposed to a severe downturn, because they are relatively new products, and it was unclear whether performance would hold up.

> *"Perhaps the biggest reason for their outperformance is that sustainable funds appear to have benefited from selecting stocks with better ESG credentials."*
>
> **John Hale**
> *Head of Sustainability Research*
> *Morningstar*

Although it was generally expected that sustainable funds would not fall as much as conventional peers because sustainable companies have more conservative balance sheets and command greater loyalty from their companies and employees, this theory had not been tested.

Moreover, it was unclear whether such funds would remain attractive in a severe downturn when investors may be looking to consolidate their assets into core holdings.

But the evidence in the first quarter of the year is positive for ESG funds.

The MSCI ESG Leaders indices outperformed their mainstream counterparts in most countries, although they did struggle with sharp negative returns. In the UK, the FTSE 100 ESG Leaders index had a return of -27.3% year-to-date compared to -33.7% for the FTSE 100 index (as of March 24).

In the US, research undertaken by Bank of America Merrill Lynch (BofAML) showed the top 20% of ESG-ranked stocks outperformed the US market by over five percentage points during the massive sell-off from market peaks on February 19 up until March 24.

And according to research by global fund ratings and analysis company Morningstar, for the first quarter of this year 70% of actively managed ESG mutual funds available in the US outperformed their peer groups, with 44% appearing in the top quartile and just 11% finishing in their category's worst quartile.

Meanwhile, in a comparison of 26 sustainable index funds with those of conventional index funds covering US stocks, non-US developed-markets stocks, and emerging-markets stocks, 24 of the 26 outperformed the comparable conventional index fund.

The reasons behind the outperformance appear to be both specific to the current crisis and rooted in some of the long-term philosophies behind sustainable investing.

Sustainable funds generally have less exposure to energy stocks than market indices, and the energy sector has taken a bashing in recent weeks. Indeed, energy stocks were far and away the worst performers of the first quarter.

There was also a marginally positive effect from the fact that sustainable funds are often relatively heavy in technology stocks, which have fared comparatively better during the crisis.

But this is only part of the story. The BofAML research showed that outperformance during the recent sell-off was not just down to a sector bias but was maintained under sector-adjustment.

As John Hale, Head of Sustainability Research at Morningstar, wrote of his company's research: "Perhaps the biggest reason for their outperformance is that sustainable funds appear to have benefited from selecting stocks with better ESG credentials.

"A feature of sustainable funds is, of course, their emphasis on companies across sectors that have performed well on various ESG criteria… Many such companies are proving to be more resilient during the sudden crisis in which we now find ourselves. They are the quality companies of the 21st Century, and quality companies tend to hold up better than their lower-quality counterparts in difficult markets."

This outperformance has led to questions about what role ESG funds will play in investors' strategies going forward.

Some analysts are cautious about reading too much into relative outperformance in what they say are unprecedented conditions.

Adam Gillett, head of sustainable investment at Willis Towers Watson PLC, told S&P Global Intelligence: "I tend to steer away from placing too much weight on such short time periods, and whilst it's tempting to draw positive conclusions it is worth reining that in somewhat [and] recognizing that sustainable investment is a long-term thesis and these are extraordinary times with various factors at play."

But others say that the philosophy behind sustainable investing means that ESG investors are less likely to pull out of sustainable funds during the current crisis.

Leslie Samuelrich, president of Green Century Capital Management Inc. which is owned by environmental and public health non-profit organizations, and whose fund had lost just over 10% year-to-date as of April 9, said the fund had lost fewer investors than the broader market over the period.

She put this down to the long-term approach taken by many investors in ESG funds.

Speaking to S&P Global Intelligence in April, Samuelrich said: "Our loss is on the market, it's not on redemptions. I do think values-based investors are stickier, and so if people didn't want to invest in fracking two months ago, they still don't."

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>
> **Myron Jobson**
> *Personal Finance Campaigner*
> *Interactive Investor*

Some research has even suggested a slight uptick in investment in ESG funds during the pandemic.

Data from UK-based Interactive Investor, one of the country's largest direct to consumer investment platforms, showed an increase in assets held in ethical funds and investment trusts from 3.7% in mid-February to 4.5% in mid-March.

But even the group's own analysts caution against reading too much into a marginal rise over such a short time period.

Myron Jobson, Personal Finance Campaigner at Interactive Investor, said: "It would be wonderful to think the increase in assets held in socially responsible funds and investment trusts on Interactive Investor reflects the growth of ethical investing more broadly.

"But in such a short space of time, it most likely reflects the fact that ethical propositions have held up a little better than the wider market. Nevertheless, this is further proof, were it needed, that investing for good doesn't have to mean sacrificing performance.

"The coronavirus pandemic has affected all aspects of life and has raised some fundamental questions about how we live and how we work, and the sort of planet we want to live in. It will be interesting to see if this starts to feed through to greater demand for ethically minded investment options."

But there remain some who are far more bullish, and who are predicting sustainable investing could see a boom in the post-pandemic world.

Nigel Green, CEO at financial advisory firm deVere Group, said in comments reported by online publication International Investment (www.internationalinvestment.net) at the end of March, that there would be a "skyward surge" in ESG investing in the next year, for three key reasons.

"First, before the pandemic, research has revealed that investments that score well in terms of ESG credentials often outperform the market and have lower volatility over the long-run.

"Since the COVID-19 public health emergency up-ended the world, the latest broad analysis shows that ESG funds have typically continued to outperform others," he said.

He explained that the coronavirus pandemic has underscored the vulnerability and fragility of societies and the planet and that companies seen to be helping strengthen those societies would fare better in future.

"It has underscored that increasingly companies will only survive and thrive if they operate with a nod from the wider court of public approval. It has underscored the complexity and interconnectedness of our world in terms of demand and supply, in trade and commerce – and how these can be under threat if not sustainable," he said.

He added that demographic changes would also play a key role in boosting sustainable investment. According to a global survey carried out by the group in January, 77% of millennials cited ESG investing as their top priority when considering investment opportunities.

"This is crucial because the biggest-ever generational transfer of wealth – likely to be around $30trn – from baby boomers to millennials will take place in the next few years," said Green.

It will be interesting to see whether this comes to pass as few, if any, market watchers are willing to make firm predictions on what will happen over the coming months or even to the end of the year.

Many countries are still in some form of lockdown and economies around the world are facing massive recessions, even if they are tentatively beginning to re-open and despite the fact that governments have pledged unprecedented financial support.

The threat of the virus is also unlikely to recede completely until a vaccine is found and medical experts are already warning that even if the current wave of infections is eventually contained, a second wave is likely later on this year, potentially causing further loss of life and economic damage.

But whatever happens, sustainable investment funds' performance in the first quarter of this year will give investors something to think about.

"ESG investing was already going to reshape the investment landscape in this new decade – but the coronavirus will quicken the pace of this reshaping," said Green.

"Investors are increasingly aware that it is possible – and increasingly necessary – to make a profit while positively and proactively protecting people and the planet.

"As such, they will be making investment decisions after measuring the sustainability and societal impact of a sector or company as these criteria help to better determine their future financial performance, or in other words their risk and return." ■

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THE RED DRAGON RE-AWAKENS… BUT WILL IT BREATHE FIRE AGAIN?

With the coronavirus outbreak now seemingly under control in China, the world's second largest economy is beginning to open up again.

Other countries still battling Covid-19 or thinking of lifting restrictions which have brought some economies to a virtual halt are watching closely for signs of what may await them in the coming weeks or months.

But how quickly is the Chinese economy likely to recover and what have the signs been like so far? We take a look.

The measures Beijing imposed in mid-January across the country to stop the spread of Covid-19 effectively led to much of China's economy coming to a standstill. Early estimates told us that the 14 provinces initially placed into lockdown accounted for more than two-thirds of China's economic output.

And while the lockdown seems to have helped bring the spread of the virus under control, the effect on the economy has been dramatic.

Latest data has shown that China's economy shrank for the first time since at least 1992 in the first three months of the year, contracting 6.8%.

Meanwhile, profits at China's industrial firms fell in March – down 35% on the same month last year – with sharp declines in some sectors. This came on the back of a 38.3% drop in January-February. Profit at industrial firms for the first quarter was down 36.7% on an annual basis to 781.45 billion yuan.

Releasing the data at the end of April, the country's National Statistic's Bureau warned that market demand has yet to fully recover, and production costs remained high.

Experts say that falling foreign demand as other countries struggle amid the global pandemic has been a major problem.

"China has faced a continued fall in demand for goods from foreign economies due to COVID-19's impact on those economies' job markets and wages growth," Iris Pang, Chief Economist, Greater China, at ING, told Reuters.

Economists have said industrial companies will now have to look to domestic demand to play a greater role in generating profits.

But Chinese domestic demand itself is only just picking up after months of lockdown.

The services sector saw sharp losses in the first few months of the year with industries involved in travel and face-to-face interaction among those hit hardest – restaurant services, for example, fell over 80% in February. Retail sales fell 15.8% in March, year on year and continuing travel restrictions meant that even in April hotel occupancy rates were around 50% lower than normal levels for that time of year.

Throughout the lockdown, Beijing took measures to prop up the economy, including subsidies and reduced social insurance payments, among others.

And since the restrictions have been lifted, it has continued to implement measures to help businesses and consumers, including launching a coupon scheme whereby people in some locations have been given vouchers to be used to spend in stores to help encourage consumption.

The central bank and the government have also pledged to introduce other measures to help the economy, if and when, they are needed.

However, forecasts for how the economy will fare in the coming quarter and the rest of the year vary greatly.

In a Reuters poll carried out between April 20-22 involving more than 40 economists in mainland China and abroad, predictions for the coming quarter ranged from growth of 5% to a contraction of 5%. The median worst-case scenario view was for a 1% contraction, meaning the country would slip into recession.

ING's Pang was one economist who predicted a recession.

Pang said: “Although there is resumption of work, that doesn’t mean that the economy is going back to the pre-COVID-19 levels, it is way, way behind that.

“As long as strict social distancing measures are in place, we think China will struggle to recover quickly. I also worry there will be a second round of infection from the western part of the world because they are now relaxing the lockdown before their cases subside. That’s why I forecast a recession.”

There was a general consensus though, that things would improve in the second half of the year with expansion of 5.3% in the third quarter and 6.0% in the final quarter. This would be followed by a surge in growth of just under 16% in the first quarter of next year, according to respondents. This would be down to the weak base in the first three months of this year, though.

The latest prediction from the International Monetary Fund (IMF) is for Chinese economic growth of 1.8% for 2020.

Like other global economies, it has only been a decade since China faced the financial crisis and great recession.

It emerged from that as the engine of the global economy, using its fiscal firepower to help the world’s economies recover more quickly.

To what extent it will be able to do that again, however, is debatable.

Speaking to Yahoo Finance on April 24, Kevin Rudd, former Australian Prime Minister and current President of the Asia Society Policy Institute, said the country’s significantly higher debt levels now and concerns over the actual effectiveness of measures could constrain the stimulus it could use this time round to help its economy.

“China’s stimulus in 2009, 2010 assisted pulling the Asia-Pacific, and the global economy indirectly, into an earlier phase of recovery. But China being first hit by this one and not deploying anything like the 10% to 15% of GDP stimulus that they did in ‘09-10, then we’re into a radically different terrain in terms of the global economic recovery,” he said.

“It’s internally concluded that a lot was wasted (between 2009-2010), that it created asset price bubbles, which created downstream financial crises within the system, particularly in 2015. And therefore, it creates a political overhang, which is ‘I, Xi Jinping am not going to repeat Hu Jintao’s and Wen Jiabao’s mistakes.’

“The debt to GDP ratio hanging around 320% of GDP, as you know, is not modest. That’s big by any global standard. Therefore, the central monetary authorities in China will be saying, ‘Whoa, let’s be very careful before we start adding another huge slice of public debt’,” he added.

The stimulus already announced by Beijing has been comparatively small – amounting to 2% of GDP according to a Reuters analysis – compared to some of the programmes announced in Europe and the US.

Meanwhile, the economy could face a further threat to its recovery. As the pandemic has highlighted countries' reliance on lengthy and complex supply chains, governments are beginning to look at how they can secure greater production at home.

Japan has recently earmarked USD 2.2 billion to help manufacturers move their production outside China. Larry Kudlow, Economic Advisor at the White House, has said incentives should be offered for American companies to move manufacturing back to the US, and EU Commission President Ursula von der Leyen has said member countries should look to shorten and diversify supply chains.

Nevertheless, Beijing has re-iterated its determination to ensure economic growth picks up swiftly.

In late April, President Xi Jinping pledged China would ramp up investment in a number of sectors, including 5G, artificial intelligence, transport and energy, and boost employment.

As the old adage goes, only time will tell. For now, we, like many of the governments around the world, wait with bated breath to see if and how quickly the red dragon can be resuscitated. ■

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WORLD MARKETS UPDATE

GLOBAL

April saw global equity markets recover from their brutal falls in March, gaining as huge fiscal and monetary measures implemented in response to the continuing Covid-19 pandemic helped lift sentiment.

There were double-digit gains for some major indices as volatility fell and countries began to ease strict lockdown measures. Infection rates in some places have also begun to fall – although governments and health officials were at pains during the month to point out the battle with coronavirus was far from won.

And in China, which investors around the world are watching closely as severe restrictions to stop the spread of the disease have now been largely lifted, there were signs that the economy is beginning to recover after practically coming to a halt for two months.

But these gains came despite some desperate economic readings which underscore the damage the pandemic has wrought.

Company earnings estimates for 2020 have been slashed with analysts forecasting double-digit falls in the US and Europe. First quarter GDP readings for many economies showed sharp contractions with worse expected to come in the second quarter, while preliminary readings for economic activity in April also made for grim reading. And unemployment has soared in many places – jobless claims in the US rose by 30 million in the six weeks to the end of April.

The dramatic effects of lockdowns on the global economy was also highlighted when oil prices turned negative, albeit briefly, during April. With demand drying up as economies have slowed dramatically, negative US oil prices were recorded for the first time in history with producers paying buyers to take oil from them.

Although April was a better month for equity markets, analysts are warning the recovery from the pandemic may be a long and drawn out process. Any level of uncertainty that might exist in a normal recovery situation is compounded here with the re-opening of economies completely dependent on the successful lifting of individual lockdowns. Each country and in turn, each economic region, will move towards re-opening at their own pace, making it very difficult indeed to confidently predict a recovery timeframe.

US

S&P 500	12.8%	Dow Jones	11.2%
MSCI USA	13.2%	NASDAQ	15.5%

US equities bounced back in April, rising sharply as a degree of confidence returned to markets after their terrible time in March. The main benchmarks all registered strong gains as they clawed back some of the losses from the previous month.

The positive performance came as huge stimulus plans poured trillions of dollars into markets and the economy. The easing of lockdowns domestically by individual states and internationally by some US trading partners, also contributed to the uptick in performance, especially towards the end of the month.

Tech shares were among the best performers. Microsoft, Apple, Amazon, Facebook, and Alphabet (Google's parent company) all rose after releasing results which showed a general resilience in the face of the pandemic. Rising demand for entertainment and online services during lockdown has helped a number of tech companies. Amazon reported a 26% year-on-year rise in sales in the first quarter as online shopping rose.

But this was in spite of grim economic readings which showed the scale of the damage the pandemic has done to the world's largest economy, with analysts warning the current quarter is likely to be even worse.

Data showed the economy shrank by 4.8% in the first three months of the year and the preliminary composite Purchasing Managers' Index (PMI) reading for April came in at 27.4. Meanwhile, retail sales plunged 8.4% in March and unemployment continued to surge higher – jobless claims in the US rose by 30 million in the six weeks to the end of April.

And there was a shock as US oil prices turned negative for the first time in history as demand dried up with many economies around the world almost coming to a standstill.

Companies across the country struggled and corporate earnings estimates for 2020 have been slashed – some analysts have been forecasting falls of up to 15%.

Europe

MSCI EMU	6.6%	DAX	9.3%
FTSE 100	3.9%	CAC 40	4.1%

European stocks climbed in April, with sentiment buoyed by falling coronavirus infection rates in many countries on the continent, which allowed some governments to relax lockdowns which have been in place for weeks. Stimulus measures helped too and during the month EU finance ministers agreed on a EUR 540 billion support plan for businesses and workers while the EU has also pledged to create a separate recovery fund. The details of the latter have yet to be finalised, however.

But while major European economies begin to gradually re-open, the effects lockdowns have had on them are already becoming clear. Eurozone GDP shrank 3.8% in the first quarter of the year, the region's composite Flash PMI reading hit an all-time low of 13.5 in April, and two of its biggest economies, France and Italy, fell into recession. Unemployment was also up. Meanwhile, the second quarter is expected to see an even bigger economic contraction and, even though a recovery is expected in the second half of the year, it is likely to finish the year well down. The International Monetary Fund has forecast a 7% fall in GDP for 2020.

In the UK, shares were also up, although the FTSE 100 index lagged other major developed benchmarks as energy stocks put a brake on gains. Readings for the country's economy were, as elsewhere, grim with retail sales in March down more than 5% and preliminary PMI readings sharply lower. While the UK's first quarter GDP figures are yet to be released, some of the forecasts for the economic toll on Britain from the pandemic have been staggering, ranging from full year 2020 contractions of 10% to an incredible 35% fall in the second quarter of the year, according to the Office for Budget Responsibility. While the latter forecast was predicated on lockdown measures remaining in place until the end of June, it underlines the magnitude of the damage inflicted on the British economy by Covid 19.

Asia

MSCI Australia	15.3%	Shanghai Composite	4.0%
MSCI ASEAN	10.3%	Nikkei 225	6.7%
KOSPI	11.0%	SENSEX	14.4%

In line with others, Australian equities had an excellent month with local benchmarks registering their biggest monthly gains for more than three decades. The ASX 200 index was up 8.8% – the most in 33 years – while the broader All Ordinaries gauge closed 9.5% higher, which was its best monthly return for 32 years. Almost all sectors finished in positive territory with energy, consumer services and software and services counters doing best. Mid- and small-caps saw the best performance, posting double-digit gains.

The gains came despite negative domestic economic data – the Australian Industry Group Manufacturing PMI reading for April fell into contraction territory, coming in at 35.8, which was the lowest level since 2009. Consumer sentiment in the same month registered its largest monthly decline in history and labour market data was poor. Meanwhile, central bank officials have warned that the economy could contract by more than 10% in the first half of the year.

In China, equities rose in April, boosted by domestic and global stimulus measures and the re-opening of the economy after it came to a virtual standstill for months under strict lockdown measures.

However, the bright performance was in contrast with gloomy economic data. China's official PMI reading came in at 50.8 in April, dropping from 52 in March. Meanwhile, China's economy shrank for the first time since at least 1992 in the first three months of the year, contracting 6.8%. Profits at China's industrial firms fell in March – down 35% on the same month last year, with profits for the first quarter following suit, down 36.7% on an annual basis to 781.45 billion yuan.

Although officials have pointed out that many factories are now operational and picking up production again, an immediate recovery is unlikely with external demand for Chinese goods expected to be weak for some time to come as the US and many European countries remain in some form of lockdown.

Indian stocks had their best month in more than a decade, surging higher on the back of more positive global cues. The main local benchmarks, the Sensex and Nifty indices, rose by around 14% each. The gains came as investors welcomed signs of the pandemic easing in some European countries and the US, and as China's economy re-opened and economic stimulus packages helped prop up major economies. However, India itself is under one of the strictest lockdowns in the world, which is due to continue for at least some of the coming month.

In other news, Facebook announced a USD 5.7 billion investment in local firm Reliance Jio, India's largest telecoms operator. It is the social networking giant's largest overseas investment to date. Meanwhile, Franklin Templeton Mutual Fund, one of India's most prominent mutual fund houses, made a shock announcement it was winding up six credit funds. It put the move down to severe market dislocation and illiquidity amid the pandemic.

As in other major developed markets, Japanese stocks pushed higher in April. But while the situation on Japan's markets improved in April, data suggests the economy did not. Consumer prices in Tokyo, which are seen as an indicator of nationwide inflation trends, dropped 0.1% year-on-year. Expectations had been for a small rise. It was the first fall for three years and has fuelled deflation fears.

Meanwhile, factory activity contracted faster than forecast in the month, as product orders and output fell at the fastest pace since early 2009 with overseas and domestic demand hit during the coronavirus crisis. Labour market readings also painted a gloomy picture.

And things are not expected to improve any time soon. The country's state of emergency has been extended to the end of May and domestic firms have already said they are likely to have to adjust production as demand falls in the coming year. A Nikkei survey of economists carried out during the month forecast a 21% contraction for the economy in the second quarter of the year as consumer spending slumps. They expect growth close to double digits in the third quarter, however.

In South Korea, there were double digit gains for stocks with sentiment holding up as investors bet on its economy rebounding quicker than most from the pandemic. The country's handling of its coronavirus outbreak, using aggressive track and tracing programmes, has enabled it to avoid the kind of severe restrictions seen in some other Asian states. The government has also announced a raft of fiscal measures to help the economy.

But in a sign of how difficult any recovery may prove to be, latest data showed South Korean exports fell sharply in April, dropping 24.3% year-on-year – the worst contraction since May 2009 – as demand dropped, the global economy slumped and supply chains were disrupted. The IMF is now forecasting a 1.2% contraction for the country's economy this year.

ASEAN markets all finished in positive territory for the month with many posting their best monthly performance for years. The best performance came from the Thai market, which gained 15%, registering its biggest monthly gain in more than a decade.

The strong performance across the region came as the economy in China, a key trading partner for local economies, began to get back to full strength as lockdown restrictions were loosened, further global economic stimulus was announced and there was an easing of coronavirus infections in Europe and elsewhere.

Meanwhile, Indonesia's central bank has said it is sticking to its full-year 2020 GDP growth forecast of 2.3% with a strong recovery in the final quarter of the year. In Singapore, consumer prices fell 0.3% month-on-month in March, after a 0.1% rise in February. This came on the back of notably lower prices for transport, influenced by cheap oil and weaker domestic activity owing to the Covid-19 pandemic. In Malaysia, consumer prices fell 1.2% month-on-month in March, down from February's flat data. Plunging transport prices, and lower prices for housing and utilities, and food and non-alcoholic beverages underpinned the decline. March's drop was the sharpest month-on-month fall in consumer prices in nearly a year.

Latin America

MSCI Latin America	6.3%	MSCI Chile	16.2%
MSCI Brazil 25-50	5.3%	MSCI Mexico	4.3%
MSCI Colombia	7.8%	MSCI Peru	10.7%

Latin American markets were among the worst performers during the global equity market plunge in March. While they bounced back in April, tracking developed markets higher, most lagged global peers as political worries added to concerns over the effects of the Covid-19 pandemic on regional economies. In the region's biggest markets, economic data indicated the extent of the damage caused by the coronavirus crisis.

Mexico's economy recorded its largest quarterly contraction since 2009, shrinking 1.6% quarter-on-quarter. A much sharper fall is expected in the second quarter as the country only introduced restrictions in the second half of March. A number of key industrial sectors, such as manufacturing, contracted during the period. Meanwhile, plunging oil prices affecting state-owned producer Pemex, as well as continued lockdown measures, are expected to lead to a deep drop in economic activity this year with some forecasting a contraction of up to 12% for 2020.

The situation in Brazil is no better. Even with the full effects of the crisis likely to be seen only in the coming quarter, there are already serious economic problems, notably in the labour market – the unemployment rate has risen to 12.2% in the three months to March alone. Economic growth forecasts are also deteriorating from week to week with a survey released by the central bank at the end of the month showing the average forecast of over 100 financial institutions was for a 3.8% contraction of Latin America's largest economy over the coming year. The forecast had been a contraction of 3.3% a week before. Estimates for public finances, inflation, interest rates and exchange rates were also lowered.

The country's outlook has also become clouded by growing political unrest. President Jair Bolsonaro, who has come under fire at home and internationally for his handling of the Covid-19 crisis – he has repeatedly dismissed it as "a little flu" and criticised his own country's lockdown measures – appears to be fighting an increasingly bitter battle with other members of his administration. He recently fired his own health minister over his approach to the virus outbreak, and the country's justice minister resigned at the end of the month, claiming Bolsonaro had interfered in police matters. There have now been calls for the President's impeachment.

Africa

MSCI FM Africa	4.1%	FTSE/JSE	13.5%
MSCI South Africa	13.2%	MSCI Egypt	10.3%
MSCI Kenya	7.1%	MSCI Nigeria	12.8%

African equity markets tracked higher in April, with many seeing double-digit returns, as global risk sentiment improved, lockdowns in many countries were eased and stimulus measures were rolled out by governments.

However, during the month there was a sobering warning of the economic problems some parts of the Continent may face this year as the World Bank predicted growth in sub-Saharan Africa will fall sharply in 2020 due to the coronavirus and the region will suffer its first recession in 25 years. The bank said most countries in the region would see lower growth, but singled out a few, saying that GDP growth was "projected to fall sharply particularly in the region's three largest economies – Nigeria, Angola, and South Africa – as a result of persistently weak growth and investment". It is forecasting the outbreak will cost the region as much as USD 79 billion in lost output this year.

In South Africa, stocks made strong gains with the benchmark JSE index rising over 13% and recording its best monthly return in almost 17 years. Local index heavyweight Naspers helped drive the index's gains as the tech investor benefitted from a major holding in Chinese internet giant Tencent. This comes amid massive demand around the world for online services and entertainment during lockdowns and as tech firms in general continue to outperform during the crisis.

Market sentiment was boosted by the announcement of a larger than expected ZAR 500 billion economic stimulus package. However, analysts have said that the support may not be enough to fend off a steep downturn in the economy this year and have warned it could lead to a steep rise in the country's budget deficit.

Meanwhile, global ratings agency S&P downgraded South Africa's sovereign debt deeper into junk bond territory, dropping it from BB to BB-, with a stable outlook. The move was not a surprise given the expected economic impact of the coronavirus crisis. All major credit rating agencies have the country rated at below investment-grade.

In Nigeria, shares were up, but the outlook for the economy was not as positive. Global ratings agency Fitch downgraded Nigeria's long-term foreign-currency Issuer Default Rating (IDR) to B from B+ with a negative outlook, citing pressures on Nigeria's external finances as oil prices fall, as well as the economic impact of the coronavirus outbreak.

According to Fitch, the shock would also raise government's debt and interest payment-to-revenue ratios from already particularly high levels and lead to a renewed economic recession.

Economic forecasts for the country are being revised down in the wake of the pandemic, with some analysts predicting stagnation, at best, this year, while the IMF has forecast a more than 3% contraction.

It was a similar story in Kenya where the virus outbreak is set to push growth down sharply this year and could even drive the economy into a full-year contraction in a worst-case scenario. The World Bank, which in January had forecast east Africa's largest economy would grow 6% this year, said it was now likely to be 1.5%, but could end up contracting by 1%. It said tourism, agricultural exports, and remittances, had all been hit by the pandemic.

Elsewhere, at the end of the month Egypt appealed to the IMF for emergency financial support as its key economic sectors came under pressure. The tourism sector, which accounts for 12%-15% of the country's GDP, has been hit particularly hard by the nation's lockdown and closure of airports. ■

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Cornhill Sales Diary

Even though staying at home is the safest course of action during the current pandemic, Cornhill remains fully open for business. Your sales representatives are more than happy to provide assistance via calls or virtual meetings.