Cinnabar Monthly Insight: April 2020
Independent Global Multi-Manager

On the first of July 2020, Cinnabar Investments will be relaunching as a fully independent global multi-manager. Cinnabar has been running the GCI branded third-party funds of funds since 2017. These funds will be rebranded to the Cinnabar range of fund of funds and will come onto Cinnabar's financial service provider licence. The funds will remain on the Sanlam Collective Investments management company and hence will change as follows:

GCI SCI* Income Fund of Funds	–>	**Cinnabar SCI* Income Fund of Funds**
GCI SCI* Stable Fund of Funds	–>	**Cinnabar SCI* Stable Fund of Funds**
GCI SCI* Balanced Fund of Funds	–>	**Cinnabar SCI* Balanced Fund of Funds**
GCI SCI* Balanced Plus Fund of Funds	–>	**Cinnabar SCI* Balanced Plus Fund of Funds**
GCI SCI* Flexible Fund of Funds	–>	**Cinnabar SCI* Flexible Fund of Funds**
GCI SCI* Worldwide Flexible Fund of Funds	–>	**Cinnabar SCI* Worldwide Flexible Fund of Funds**
GCI Global Fund of Funds USD	–>	**Cinnabar Global Balanced Fund of Funds**

*Sanlam Collective Investments

The fundamental philosophy of Cinnabar is multi-management. Multi-management through the use of funds-of-funds lowers risk through diversification. Lower risk means less likelihood of capital loss and also produces more consistent performance. The Cinnabar range of funds-of-funds will continue to be managed independently, with underlying managers held purely on merit and for the benefit that they bring to the portfolios.

As a business, Cinnabar will be migrating investors from model portfolios to the funds-of-funds. Funds are superior to model portfolios for multiple reasons:

- Funds of funds are regulated Collective Investment Schemes where performance and reporting are standardised and hence comparable to other funds in a given risk profile
- Changes to underlying funds in a fund of fund never attract capital gains (CGT). In comparison, model portfolios are unregulated and can attract CGT events.
- The benefits of scale allow for better pricing on underlying funds

Cinnabar's approach to portfolio construction makes use of both active and passive funds; it is not an either-or decision. This approach has many benefits with the passive funds helping to reduce cost while the active fund managers can protect in difficult bear markets through their superior stock-picking ability. The GCI (soon to be Cinnabar) funds of funds have outperformed their peers so far this year, while still retaining their full allocation to equities.

The rebranding of the funds to Cinnabar is beneficial to all of our clients and investors. There will be cost savings due to the consolidation of the model portfolios into the funds of funds. Performance fees on the funds will fall away, adding further savings to the investor and improved performance. The mandates and the management of the funds-of-funds remain as is, and there are no negative implications for any investors.

Market Update

United States of America

The American economy shrank by 4.8% on an annualised basis in the first quarter, the worst decline since the fourth quarter of 2008. With the labour force participation rate registering a drop to 60.2% in April from 62.7% in the prior month, first-time filings for unemployment insurance were 3.84 million for the week ending 25th April. This takes the rolling six-week unemployment figure to 30.3 million. The US unemployment rate advanced to 14.7% in April up from 4.4% in March. Social distancing and soaring unemployment will suppress consumer spending, which is the main growth engine for GDP growth in the US. With "the great lockdown" in effect, both exports and imports had their lowest reading since early 2009 as US trade deficit widened to $44.4 billion in March of 2020. Retail sales suffered its most significant decline on record plunging 8.4% in March. The IHS Markit US Manufacturing PMI was revised lower to 36.1 in April 2020. The economy is entering a severe recession amid the Covid-19 economic shock; however, the fiscal and monetary stimulus should help cushion the blow.

UK

The most recent economic data points to a deep recession as the nationwide lockdown depresses domestic demand, and similar measures abroad hurt exports. Manufacturing optimism in the UK has tumbled to its worst quarterly reading since the records began in the 1950s. The CBI Business Optimism quarterly gauge fell to -87 in the second quarter from +23 in the previous quarter. The IHS Markit/CIPS UK Manufacturing PMI suffered its steepest month of contraction since 1992, declining to 32.6 in April. As the country remains in coronavirus lockdown, consumer confidence dropped to -33 in late April, retail sales decreased to 5.80% in March, and unemployment edged up to 4% in the three months to February. Annual inflation eased to 1.5% in March from 1.7% in February; this doesn't bode well for the monetary transmission mechanism as money needs to change hands, increase demand and ultimately increase inflation. The Bank of England voted unanimously to maintain the critical bank rate at a record low of 0.1% on 7th May. Policymakers also left the bond-buying program at £645 billion, although two members voted for a £100 billion increase, in a further sign that fresh stimulus may be underway.

Europe

The eurozone economy shrank by 3.8% in the first quarter, its sharpest pace on record. The European Commission says the economy will experience a recession of historic proportions and has forecasted GDP to contract by 7.7% this year, then to rebound by 6.3% in 2021. Consumer and business confidence have tumbled during April. Consumer confidence decreased to -22.7, its lowest level since March 2009, while business confidence contracted to -1.81 points from -0.28 points in March. Predictions show the annual inflation rate slowing to 0.4% in April from 0.7% in March. The ECB left its key interest rates unchanged but lowered the interest rate on an emergency loan program for banks and offered a new series of non-targeted pandemic emergency longer-term refinancing operations to provide additional liquidity to banks. ECB President, Christine Lagarde, stated that eurozone governments might need to borrow an additional EUR1.50tn this year to keep their economies afloat amid the coronavirus pandemic. This support by the ECB has helped sentiment, and there are signs that France, Italy, and Spain are easing their lockdowns.

China

After spending two months in lockdown during the first quarter of this year, the Chinese economy contracted by a seasonally adjusted 9.8% on quarter in the three months to March, following a 1.5% growth in the previous quarter. Year-on-year, this translates to a contraction of 6.8% for the first quarter of 2020, the first contraction since 1992. This steep contraction reflects the severe damage caused by the COVID-19 outbreak, which forced authorities to shut down all non-essential business activity. The Caixin China General Manufacturing PMI dropped to 49.4 in April from 50.1 in the previous month. Exports unexpectedly rose for the first time in four months; however, the trade surplus widened to USD 45.34 billion in April as imports experienced its most significant drop in four years. Much like the rest of the world, China has adopted monetary and fiscal stimulus to cushion the fall, with the People's Bank of China lowering its benchmark interest rates by 20 bps to a record low of 3.85% on 20th April. Furthermore, the central bank has also increased liquidity by pumping another $14 billion into the financial system.

South Africa

The South African economy will shrink this year. Policymakers are forecasting a contraction of 6.1% for 2020. To combat the economic impact of the pandemic, the South African government unveiled measures of up to ZAR 500 billion (about 10% of GDP) on 21st April, financed through budget reallocations and external financing. The annual inflation rate fell to 4.1% in March from 4.6% in February forcing the Reserve Bank to slash its key repo rate by another 100bps to 4.25% in an emergency meeting to support the economy. Manufacturing PMI tumbled to 46.1 in April from 48.1 in the previous month, and the business confidence index sank to 77.8% in April from 89.9% in March, its lowest level since 1985.

Global

In January, the IMF forecasted a global GDP expansion of 3.3% this year. Less than five months later, the IMF has warned the COVID-19 outbreak will see global GDP decreasing by 3%, sighting a collapse in economic activity that will mark the steepest downturn since the Great Depression of the 1930s. The assumption here is that COVID-19 and restrictions on daily life will peak in the second quarter, but if not the world economy will shrink by a further 3%. In aid of the world economy, the IMF would look at supplying immediate debt service relief to 25 member countries under its Catastrophe Containment and Relief Trust. Separately, the G20 suspended debt payments totalling around $12 billion for the 77 poorest countries in the world, most of which are in Africa.

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As At 30 April 2020	YTD	Last Month	Last Quarter	1 Year	2 Years	3 Years	5 Years	10 Years
South African Asset Classes								
STeFI Call Deposit ZAR	2.0	0.4	1.5	6.5	6.5	6.6	6.6	5.9
Beassa ALBI TR ZAR	-5.1	3.9	-6.3	0.1	2.5	6.1	6.1	7.7
FTSE/JSE SA Listed Property TR ZAR	-44.5	7.0	-42.8	-46.0	-30.1	-21.4	-12.3	3.3
FTSE/JSE All Share TR ZAR	-10.4	14.0	-8.8	-10.8	-3.7	1.1	1.6	9.1
FTSE/JSE Market Capitalisations								
FTSE/JSE Small Cap TR ZAR	-26.6	8.8	-26.1	-30.5	-22.5	-15.3	-7.7	5.0
FTSE/JSE Mid Cap TR ZAR	-30.1	8.5	-27.8	-23.4	-14.5	-7.9	-3.5	7.1
FTSE/JSE Top 40 TR ZAR	-7.3	14.7	-6.0	-8.1	-1.8	2.7	2.3	9.3
FTSE/JSE Sectors								
FTSE/JSE Ind/Financials TR ZAR	-32.3	11.9	-28.5	-35.7	-21.0	-9.9	-6.6	6.9
FTSE/JSE SA Industrials TR ZAR	0.3	9.6	-1.2	-4.6	-3.5	-0.5	1.6	13.3
FTSE/JSE SA Resources TR ZAR	-8.1	23.0	-4.8	2.3	14.3	16.2	4.8	2.4
Global Equities in ZAR								
FTSE/JSE All Share TR ZAR	-10.4	14.0	-21.4	-10.8	-3.7	1.1	1.6	9.1
MSCI World Free GR USD	15.2	14.1	1.0	23.7	23.3	17.3	15.0	18.7
MSCI EM GR USD	9.6	12.3	-2.4	13.2	11.3	12.2	9.3	11.6
S&P 500 TR USD	19.1	16.0	2.7	29.2	29.8	21.2	18.9	22.4
FTSE 100 TR GBP	-1.0	8.7	-9.0	2.7	7.3	7.5	5.5	12.3
Nikkei 225 Average TR JPY	15.1	10.8	3.9	23.8	18.9	17.0	14.5	17.1
SSE Composite PR CNY	21.6	7.6	13.1	13.7	10.8	6.8	-2.7	9.2
Global Equities in USD								
FTSE/JSE All Share TR ZAR	-31.8	10.8	-38.4	-30.4	-20.6	-9.0	-6.8	-0.4
MSCI World Free GR USD	-12.3	11.0	-20.9	-3.5	1.7	5.6	5.5	8.3
MSCI EM GR USD	-16.6	9.2	-23.6	-11.7	-8.2	0.9	0.3	1.8
S&P 500 TR USD	-9.3	12.8	-19.6	0.9	7.0	9.0	9.1	11.7
FTSE 100 TR GBP	-24.7	5.7	-28.7	-19.8	-11.5	-3.3	-3.2	2.5
Nikkei 225 Average TR JPY	-12.4	7.8	-18.7	-3.4	-2.0	5.3	5.1	6.9
SSE Composite PR CNY	-7.4	4.6	-11.4	-11.2	-8.6	-3.9	-10.7	-0.4
Commodities in USD								
S&P GSCI Copper Spot	-16.0	4.7	-6.9	-19.3	-12.7	-3.3	-4.0	-3.5
LBMA Gold Price PM USD	12.4	5.8	7.5	32.8	13.9	10.4	7.6	3.7
Oil Price Brent Crude PR	-61.7	11.1	-56.6	-65.3	-42.0	-21.2	-17.7	-11.6
LBMA Platinum PM PR USD	-19.4	5.5	-20.0	-13.7	-7.9	-6.8	-7.6	-7.9

Source: Morningstar Direct as at 30 April 2020. Annualised returns are presented for periods longer than 1 year.

	2020/04/30		YTD	Last Month	Last Quarter	1 Year	2 Years	3 Years	5 Years	10 Years
Currencies										
US Dollar	R	18.37	-23.6%	-2.8%	-18.4%	-22.0%	-17.6%	-10.0%	-8.2%	-8.7%
Euro	R	19.66	-19.7%	-0.2%	-16.1%	-18.5%	-12.6%	-9.7%	-7.6%	-6.8%
Pound Sterling	R	23.17	-20.0%	-4.4%	-14.7%	-19.4%	-13.9%	-9.2%	-4.5%	-7.0%

Source: Quandl as at 30 April 2020.

Sources: New York Times, Trading Economics, Bloomberg, IMF, Cinnabar Investment Management, The Economist