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COVID-19: THE VIRAL INFECTION THAT WILL SPREAD TO YOUR RETIREMENT FUND BENEFITS

March 23rd, 2020

The year 2020 was envisioned to be a glorious one by many within our communities. It was meant to be the year for champagne not beer, yet Corona is the name on everyone's lips but not that corona and not in that way (excuse the puns).

The Coronavirus outbreak was first identified in late December 2019 in Wuhan, Hubei, China and has since been declared a global pandemic by the World Health Organization (WHO), with confirmed cases in over 153 countries and territories across the world. Scientifically speaking, coronavirus is a generic name that refers to a large family of viruses that cause respiratory tract infections including the common cold. However, the specific form of coronavirus that we are currently dealing with (COVID-19) is a new strain, never before identified in humans. This article seeks to establish and clarify the impact of this outbreak on your retirement fund benefits, whilst also providing you with necessary information to put that impact into perspective.

World Market Indices Performance since December 2019

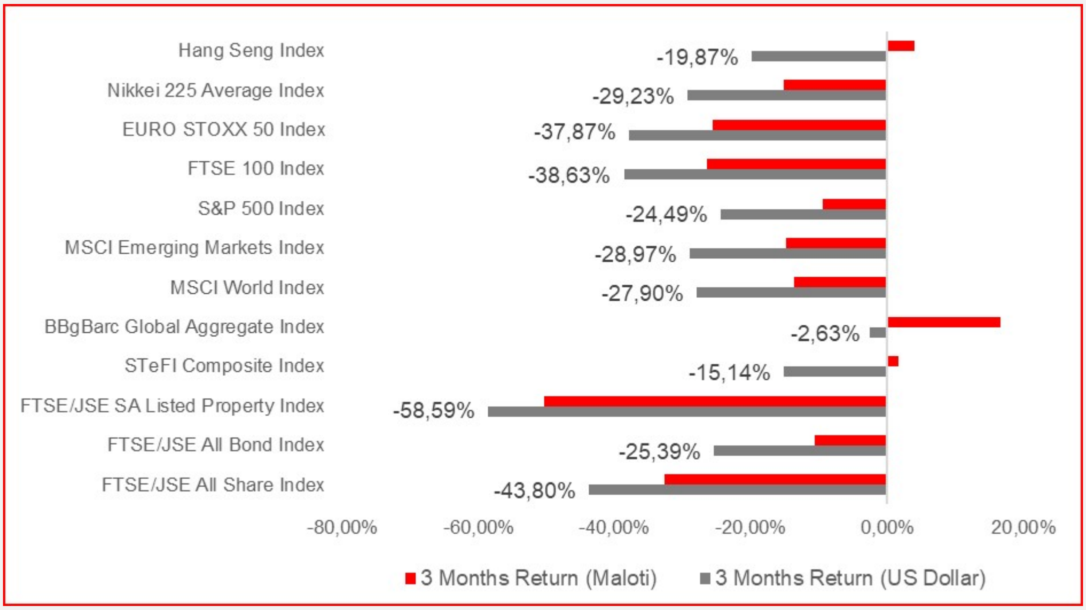
Whilst it is true that Covid-19 is not the most lethal outbreak (compared to Ebola, Avian flu and Swine flu) of the past 20 years, the virus could yet prove to be the most economically disruptive. Across the world; economic activity is grinding to a halt, businesses are facing an existential threat, and subsequently when the dust settles, the job losses could be enormous.

As a member of a retirement fund, the last thing you want to see when you peruse your benefit statement is to see a negative return. This is only normal and understandable; after all, the only reason you invest in the first place is because you want your retirement fund contributions to grow. Unfortunately, this cannot always be the case. Retirement funds invest in the financial markets, and the returns thereon can only be a function of the returns by these markets.

Since the news about the outbreak in China first broke, the financial markets across the world have gone into a frenzy. Panicked selling on global markets have resulted in the worst losses since the financial crisis of 2008, as investors show their concern about the rapid spread of the outbreak across the rest of the world.

For the 3 months leading up to 18 March 2020, almost all major indices, with the exception of Bloomberg Barclays Global Aggregate Bond Index, yielded negative returns for a Lesotho based investor, in Maloti terms. The South African listed property market was the worst performing,

losing 50.37%, followed by SA equites (represented by the FTSE/JSE All Share) and UK equities (represented by the FTSE 100) at 32.64% and 26.50% respectively. Perhaps surprisingly, the Chinese equites (represented by the Hang Seng) displayed defiance, gaining 3.97% over the same period.
The figure below illustrates the returns of some of the major market indices over the last three (3) months to 18th March 2020. For your ease of reference, the labelled return figures are in US Dollar terms:



This is to say that as member of retirement funds, we will need to re-calibrate our expectations of the investment returns that will be declared by our retirement funds over the next few months and years as the world recovers from effects of the factory and distribution hub closures in China, cancellations of sporting events and the grounding of airplanes.

Does your retirement fund have an Appropriate Investment Strategy?

Investment managers are renowned for preaching calm and patience during times such as these because "the market always rebounds." Frankly, this broad brush-strokes approach is not applicable to the baby boomer generation within retirement funds.
Retirement funds, whilst being long-term focused investment vehicles, are made up of membership compositions that spread across the working age spectrum. This means that, unfortunately, there are members of retirement funds that will be retiring during this period and will not be afforded the luxury of waiting for the markets to rebound. These members will be forced to exit their retirement funds and that is a harsh reality. Not discounting the influence of hindsight, could these members have been better off had their Fund's implemented life-stage investing as an investment strategy?
Perhaps this would be a good time to review your Fund's current investment strategy and determine whether you comprehend it and are comfortable with its potential implications during good (bull) and bad (bear) market periods. Remember, the market does operate in cycles.

In Conclusion, is there Cause for Hope of a Recovery?

History indicates that the financial markets, which we have entrusted with our retirement plans, always seem to find a way to overcome major crises and introduce measures to correct negative market cycles bought about by a variety of causes, as was the case following the 2008 Financial

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Crisis, the 2000 Tech Bubble, the 1987 Black Monday and the 1929 Great Depression.

Some financial market experts suggest that we ought to expect setbacks in equity markets of 10% or more every 18 months, and those of more than 20% at least once every five (5) years. They refer to such occurrences as market corrections, and ought to be accepted as part of the investment journey.

The next couple of months will be brutal, our primary concern will be maintaining our health. When we succeed, we will then begin the road to recovery, re-igniting economic activity and rebuilding our businesses. As the financial markets look to recover, so too will our retirement funds.

In these trying times, let us remember to abide by the following precautionary measures: Wash your hands frequently; maintain social distancing; avoid touching eyes, nose and mouth; practice respiratory hygiene; when unwell, seek medical care early; and remember, do not panic when you receive your benefit statement, allow time for the markets to recover, they always have.

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