# The Connector

EDITION 02 | 2020

In the short space of the first three months of 2020, COVID-19 went from being an obscure news item affecting citizens in Wuhan in China, to the WHO declaring the COVID-19 situation a pandemic. The virus has swept across the globe and changed our lives in many ways.

This edition of the Connector newsletter contains information that many of us are considering now. What should we be saving in the event of a rainy day, for our retirement and how much spending can we really do without?

This edition also covers what has been happening in investment markets in the first three months of the year.

**The lockdown has made many of us realise just how vulnerable we are financially.**

**Living through lockdown has made us realise just how much money we spend on convenience items like take away food and coffees, ready-made meals, and outsourced services because we just don't have enough time in our day to day lives.**

**The challenge going forward is to see how we can keep this balance in our lives.**

As more and more countries headed into a serious lockdown situation, financial markets lost value during March. There has since been recovery in investment markets during April and May 2020.

Despite the recovery in investment markets, many economies have taken a severe knock which has resulted in central banks reducing interest rates to soften the blow.

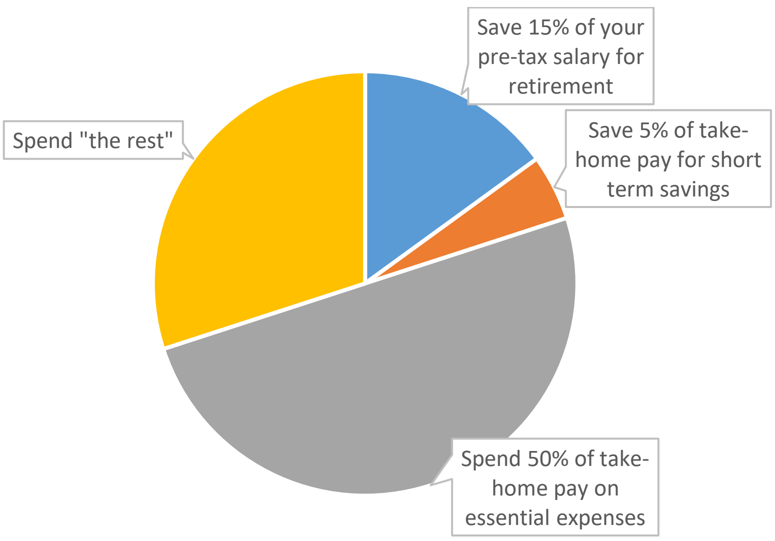
In South Africa and across the world, many people have been unable to continue working and are now relying on their savings, loans and the generosity of others to try and make ends meet.

## SOME "GOLDEN RULES" FOR SAVING

**If you are fortunate enough to be receiving an income when so many people are not able to earn an income, it's a good time to remember the golden rules of saving for financial wellbeing.**

**Try not to have more debt than you need and maintain adequate savings.**

**A rule of thumb that some financial advisers recommend is the "50/15/5 rule" for dividing up your income.**




**The actuaries calculate that if you contribute and invest 15% of your before-tax salary for 40 years, you are likely to be on track to receive a retirement income that is around 60 – 75% of your income before retirement.**

**This means that if you would like to (or need to) retire earlier, you need to try to reduce your spending and increase your long term and retirement savings.**

### BEFORE YOU START SPENDING, MAKE SURE YOU LOOK AFTER YOUR FUTURE SELF BY TAKING CARE OF YOUR SAVINGS

You need to save at least **15% of your salary (before tax) for retirement**. You can make this contribution to your employer's retirement fund or your own retirement annuity.

If you cannot save this now, then plan how you can increase the amount you save every year until you can get to this amount.

**Use 5% of your take-home pay for short term savings** until you have at least enough saved to cover three to six months of your usual expenses.

### THEN HAVE A CAREFUL LOOK AT WHAT YOU ARE SPENDING YOUR INCOME ON

**The rule of thumb is to not spend more than 50% of your take-home pay on essential expenses.**

These include the costs of housing, food (groceries not eating out), healthcare (medical aid and out of pocket expenses), transport costs, childcare, your debt repayments, and other insurances.

**The rest** of your income can be used for the nice-to-have's like entertainment, clothes, holidays, and other luxuries.

## SAVING FOR THE LONG TERM AND YOUR RETIREMENT

The main retirement savings vehicles in South Africa are employer-sponsored pension and provident funds and retirement annuity funds. Many employers provide a pension or provident funds for employees. If you are eligible to belong to the fund offered by your employer, it is compulsory to join the fund. Retirement annuity funds are not linked to an employer, which means that they are ideal for the self-employed or people wanting to increase their retirement savings in a tax efficient way.

When you save for your retirement in your employer's retirement fund or a retirement annuity fund, you receive a tax incentive to save by reducing the tax you owe. The tax benefits of pension and provident funds and retirement annuity funds include:

- An exemption from tax on the contributions made for retirement savings up to certain limits
- An exemption from gains on the investments while you are saving.

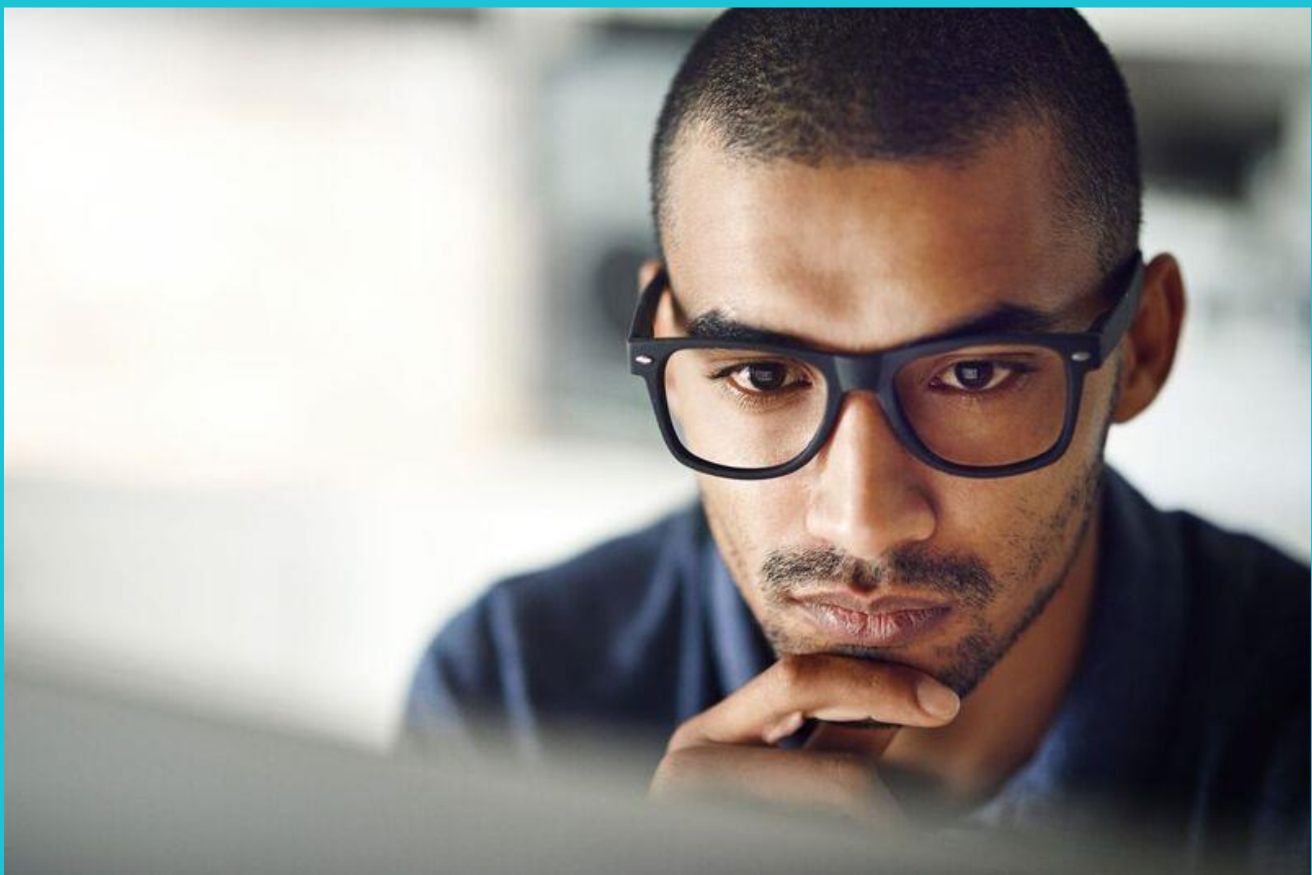
Your benefit is subject to income tax when you retire and as you draw an income from your retirement savings.

## SAVING FOR EMERGENCIES

Financial experts recommend that you have an emergency fund that can cover your expenses for three to six months without having to rely on high-interest loans. Remember that an emergency fund should be there when the unexpected happens, such as a loss of income or your job. The aim of this fund is not to meet "unplanned" expenses such as extra medical costs or your car's maintenance. Few South Africans are likely to have had this type of savings fund when lockdown was announced, and they were not able to earn an income. We now appreciate that the wisdom of financial experts may not have been excessive after all.

One aspect to consider is where to invest this nest egg for emergency savings. Its recommended that you look at a conservative and easily accessible investment for this money.

It may be worthwhile considering a tax-free savings account for this type of savings. Tax-free savings accounts allow you to invest up to R33 000 a year (up to a lifetime limit of R500 000) in different types of investments. Importantly, all the gains on these investments (capital gains, dividends, and interest) are tax-free. Contributions are not tax deductible, but this means that any payouts are also not taxed. Generally, the investment and administration charges on tax-free savings accounts are also very competitive.



# YOUR INVESTMENTS IN Q1, 2020

**The economy in Q1, 2020**

Two lingering risks came to an end in January of 2020. Firstly, China and the US signed the first phase of their long-negotiated trade deal. Secondly, Britain officially left the European Union.

The good news was short-lived. On 27 March, Moody's downgraded South Africa's credit rating to junk status. The reasons were a concerning financial position of the country, lack of policy reform and weak economic growth. It was announced that GDP growth in Q4 of 2019 in South Africa was -1.4%, with seven out of ten industries contracting. This means that the economy slipped into a technical recession, with the economic growth being only 0.2% for 2019.

The first quarter of 2020 also saw the beginning of an oil price war as Saudi Arabia and Russia failed to renegotiate a supply agreement. Coupled with the worldwide Covid-19 lockdowns reducing demand for oil, the oil price fell to levels last seen over 15 years ago.

**Covid-19**

The rise of the Covid-19 pandemic was by far the biggest influence on the global economy during the first quarter of 2020. It has shaken investment markets and economies worldwide. What began as a human global pandemic, became a financial market crash, and a driver of certain global recession. Global GDP is expected to fall sharply. Locally, the impact of COVID-19 is expected to be severely negative looking forward. The International Monetary Fund projects that the South African economy will contract by approximately -6% for 2020. Economists predict that growth may rebound strongly in 2021 as economies and global trade begin to normalise.

**Interest rates**

Many central banks have cut interest rates and announced some of largest stimulus packages seen in history, as emergency moves to support the world economy. For example, the United States has injected a package of more than $2 trillion into the economy, while South Africa announced a R500 billion stimulus package (around 10% of GDP).

## INVESTMENT MARKETS IN Q1, 2020

Global markets have experienced one of the sharpest declines in history. The South African equity market fell -12% in March and had the poorest quarter since September 1998 (-21%). The US markets posted their worst first quarter ever in history (-20%). This has affected all asset classes. SA property declined -36.6% and bonds by -9.8% for the first quarter of 2020.

The VIX index that measures volatility (or investor 'fear'), hit all-time highs. This is shown in the way that markets have had sharp falls and rises. For example, in the last week of March, the SA share market gained over 8%, and bonds 9%. This rally continued into April, with share prices up over 14% for the month of April 2020, indicating the beginning of the recovery or a bear market rally.

# KEY INDICES TO 31 MARCH 2020

| KEY INDICES | 1 month to 31 Mar 2020 | 3 months to 31 Mar 2020 | 6 months to 31 Mar 2020 | 1 year to 31 Mar 2020 | 3 years to 31 Mar 2020 | 5 years to 31 Mar 2020 | 10 years to 31 Mar 2020 |
|---|---|---|---|---|---|---|---|
| **Local shares**<br>FTSE/JSE All Share TR ZAR | (12.13%) | (21.38%) | (17.74%) | (18.42%) | (2.07%) | (0.13%) | 7.67% |
| **Local resource shares**<br>FTSE/JSE Resources 10 TR ZAR | (11.40%) | (24.46%) | (14.30%) | (18.52%) | 8.49% | 1.38% | (0.13%) |
| **Local industrial shares**<br>FTSE/JSE Industrials I 25 TR ZAR | (1.91%) | (6.30%) | (6.35%) | (4.41%) | 0.00% | 1.75% | 13.83% |
| **Local financial shares**<br>FTSE/JSE Financial 15 TR ZAR | (30.66%) | (40.05%) | (38.51%) | (39.24%) | (9.72%) | (7.34%) | 5.91% |
| **Local property**<br>FTSE/JSE SA Listed Property TR ZAR | (37.99%) | (49.98%) | (49.66%) | (51.77%) | (25.82%) | (16.45%) | 0.97% |
| **Local bonds**<br>Beassa ALBI TR ZAR | (9.75%) | (8.72%) | (7.14%) | (2.99%) | 5.27% | 5.18% | 7.40% |
| **Local cash**<br>STeFI Composite ZAR | 0.57% | 1.69% | 3.47% | 7.21% | 7.31% | 7.22% | 6.51% |
| **Global shares**<br>MSCI ACWI GR USD | (1.73%) | 0.57% | 1.16% | 10.52% | 12.28% | 11.75% | 16.34% |



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