



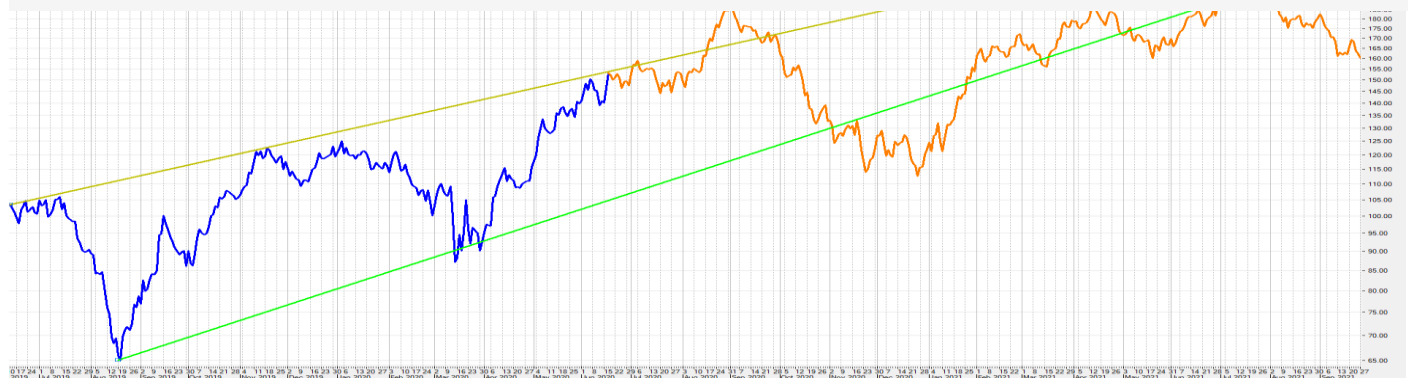
**At least once a day someone asks me whether some or other share would be good value if it were bought today. That is particularly the case with Aspen which this week soared ten percent in a day on the news that the company was the manufacturer of the drug Dexamethasone which has been announced as the wonder treatment for Covid-19.**

The answer is yes, in the short term but no in the longer view. Let us start with a graph of the shares which were a market darling until the crash of Steinhoff shone an adverse light on South African-listed shares which were perceived to be too highly geared by their borrowings. Note my green trend line which suggests that until the market turned against this share it was rising in price at an annualised rate of 39.2 percent and thus, if all things were equal it might have continued from its February 2015 peak value of R442.46 to a current R2 230.



Indeed, if you were to ignore this week's announcement, the fact that the share has again been rising at an annualised rate of 207 percent compound since it bottomed at R80 on March 16 this year, you might conclude that Aspen still has legs. Indeed, ShareFinder calculates that it could rise in value to R184 in the near term before retreating until the end of the year and reversing most of the gains it has made since the end of April.

Ignoring recent issues, lets us start with trend-line analysis for the period since Aspen began recovering once it had systematically reduced its debt levels. Then let us add in ShareFinder's now legendary AI-driven future projection system. Together these two make it clear that, within a rising wedge formation, the shares are currently expensive and, for those prepared to exercise patience, year-end will likely offer a better buying opportunity as my second graph illustrates:



Turning to the latest news about the efficacy of Dexamethasone in treating Covid-19 patients, this is undoubtedly a boost for Aspen which owns the global licence and manufactures it both in this country and Germany. However, speculators should note that Aspen this week announced that it is prepared to supply the drug at cost to the world. It might thus represent more of a public relations and humanitarian effort by Aspen rather than one likely to produce enhanced dividends!

Last weekend the drug was hailed by scientists at Oxford University as a major breakthrough in the global battle to reduce the number of deaths from Covid-19. They announced it was both cheap drug and had proved remarkably effective in bringing down the death toll at hospitals. It could be bought in the UK for the equivalent of about R100 and was already available in British hospitals. Their tests indicated that it cuts deaths of people on ventilators by one third.

Dexamethasone is an anti-inflammatory medication used to treat arthritis, severe allergies and asthma. It is the first drug that has been shown to save lives and experts hailed the results as a 'major breakthrough.' A trial of 2,100 patients showed that it reduced the death rate of people on ventilators by 30 per cent. Current statistics suggest that four in 10 patients with the most severe form of Covid-19 who need mechanical ventilation, will die. It also cuts the death rate of people needing oxygen by one fifth. The Oxford team concluded that up to 5,000 lives could have been saved if they had known about the drug at the beginning of the epidemic.

## Zeder

The issue of trying to put a value on a share and trying to determine its future profitability has, furthermore, seldom been better illustrated than by Zeder which is in the PSG stable and which I recently wrote about when I disclosed my own share purchases at the bottom of the March crash. Here trend line analysis suggests a sitting duck that was just waiting to crash and precisely that happening in April. But just reading the graph alone would have totally misled investors:



Having plunged to R3.71 on March 18, Zeder subsequently recovered to R4.49 on April 3 before crashing down to R1.73 after paying out a special dividend of R2.30 as it distributed the shareholders' portion of its major asset sale of Pioneer Milling to Pepsico.

I bought the shares at R4.15 inclusive of brokerage etc. So why should I consider myself a major winner from this transaction? Well, so far as the tax man is concerned, I paid R4.15 and, if I sold them today "at best," I would only receive R2.60. That means I would at that price have a capital loss of R1.55 a share in my books. But actually, after deducting the special dividend, my actual purchase price was only R1.95 which implies that at the current price of R2.60 I am actually up 75 cents per share.

Of course, that calculation ignores the inevitable tax man's share of a 20 percent dividend tax of R0.46 which implies that my actual cost was R2.41. However, if you do the maths, that price implies that I bought at a 7.3 percent discount to their peak price this week of R2.60.

However, you might consider that the joke is on me since the shares have since slipped backwards and the opening price today was R2.47.

Now Zeder conveniently offers its shareholders an up to date "sum of the parts" valuation of its shares which implies that I bought assets worth R3.75 for R2.41 which implies that I actually obtained them at a 55.6 percent discount to their net worth and anyone buying them today at R2.34 would be buying at a discount of 37.6.

But would the exercise be worthwhile? Well, if you go back to my graph you might note from the red descending trend line that Zeder shares had been falling at an annual rate of 13.6 percent from mid-2015. However, as I recently pointed out in this column, the reason for this decline was the underperformance of Pioneer which is now, thankfully, is no longer a drain on Zeder. Furthermore, the company has since also disposed of its holdings in Quantum foods for R308-million leaving it highly cash flush to the tune of R1.35-billion representing some 38 percent of its market capitalisation and leaving a remaining large asset of a 41 percent stake in agriculture retailer Kaap Agri which has been in share price decline since it listed in 2017. All of this leaves virtually outright ownership of unlisted seed company Zaad, warehouse Logistics Group, Fruit exporter Capespan and 56 percent of Zambian grain farmer Agrivision Africa which has not had a good track record.

Outlook for the underlying assets are generally not particularly inspiring but, noting significant cash acquisitive movements within parent group PSG, it would be no surprise if a cash offer were to be made to minorities ahead of de-listing Zeder. PSG has some cash-hungry interests elsewhere which could benefit from such a move. My guessing is that this is the best outlook for Zeder shareholders which, in its present state, I do not see as a long-term hold.

But there is a twist in this tale. To arrive at their sum of the parts valuation, Zeder's directorship have savagely cut the value of some of their unlisted assets, in particular their Zambian operations which have had their capital value halved, leading me to ponder whether parent company PSG is not looking to buy out minority shareholders by offering something close to the sum of the parts valuation. Since another PSG subsidiary, Curro, today announced a rights issue aimed at raising something like the current Zeder cash pile, such a buy-out becomes increasingly likely.

Now remember that I would be sitting with a tax loss in my books if I sold our holdings in Zeder at this point. Indeed, if PSG were to make me an offer of anything up to up to R4.15 I could dispose of the shares in a capital gains tax neutral position and DOUBLE also my original investment. For PSG a similar benefit could possibly apply to the mechanics of this deal.

That's having your cake and eating it!

## Have a good weekend!



**Our launch last week of a new venture aimed at offering some light reading in the Covid-19 era, the first issue of a collection of Richard Vane novels, has seen many of you downloading the free trial. So please let us have some feedback. Do you want us to release more? Write to: [support@rcis.co.za](mailto:support@rcis.co.za)**

**If you have not yet done so why not try the free download of the first 50 pages. Click here to download the opening chapters: <http://www.rcis.co.za/updates/TheStoryOfThome50page.pdf>**

**If you then wish to read on at a cost of \$5 click this: <http://www.rcis.co.za/thome-heloise/>**

## The month ahead:

**New York's SP500:** I correctly predicted a brief down-turn which I expected to be followed by another brief recovery and then it was likely to be down-hill until early August followed by a run-up until the end of September and then a run down until early November.

**London's Footsie:** I correctly predicted the decline which is likely to last until mid-July followed by a recovery trend lasting until mid-October and then down until late January.

**Germany's Dax:** I correctly predicted a decline which I still see lasting until mid-August followed by gains which I see lasting until the second week of October and then a final run down until early December.

**France's Cac 40:** I correctly predicted a decline which saw lasting until the first week of July. This week's sharp decline has, however, taken the sting out of that and now I see volatile gains until September when a volatile decline is due until late November.

**Hong Kong's Hangsen:** I correctly predicted the start of a long but volatile recovery until the end of December when the next down-turn is likely with some interim weakness likely to begin about now until the end of June.

**Japan's Nikkei:** I correctly predicted the gains would last until the first week of June after which it would be downhill until August before the next short up-surge until mid-September and then down-hill again until mid-December. I also correctly saw brief weakness last week followed by a brief up-tick and then a fresh down-turn until early August.

**Australia's All Ordinaries:** I correctly called the end of the recovery followed by declines which I still see until June 26 followed by a brief two week up-surge until July 20 and then downhill again until the second week of August before the last up-surge until mid-September.

**JSE Industrial Index:** I correctly predicted a volatile decline which I expect to last until June 22 followed by a recovery until June 29 and then another decline until July 3 ahead of a recovery until late July ahead of a decline until late August.

**JSE Top 40 Index:** I correctly predicted a decline followed by a brief recovery. Now I see declines until the first week of July and then a recovery until the second week of August ahead of yet another decline until early-September.

**ShareFinder JSE Blue Chip Index:** I correctly predicted declines, which I now see lasting until June 18, followed by volatile gains until late August ahead of a long decline bottoming in late October.

**JSE Gold shares:** I correctly predicted temporary gains until the first week of July before the down-turn resumes continuing well into the new year.

**Gold Bullion:** I correctly predicted the continuation of a long recovery likely to continue well into 2021.

**The Rand/US Dollar:** I wrongly predicted gains but the trend was merely delayed and I now see a volatile sideways to strengthening trend until late August when the next weakness is likely.

**The Rand/Euro:** I correctly predicted weakness would begin in mid-June lasting until the first week of August before a strengthening trend until late October.

***The Predicts accuracy rate on a running average basis since January 2002 has been 85.83%. For the past 12 months it has been 96.51%.***

**Richard Cluver**

# Brace for a wave of inflation

By Hywell George

*Director of investments at the Old Mutual Investment Group*

**Is it now possible that markets will return to their pre-1987 form, where they were left to their own devices and no-one got bailed out?**

In August 1987, Alan Greenspan was appointed chair of the US Federal Reserve. Two months later on October 19, now known as "Black Monday", the US stock market fell 22%.

Greenspan's reaction was highly market orientated: for the first time, the Fed cut interest rates to support the equity market (the thinking being that a falling stock market would weaken the real economy).

He repeated this in 1998, during the Asian crisis and the collapse of the hedge fund LTCM; in 1999, amid fears over the impact of Y2K; and in 2000, with the dot-com bust.

The baton was picked up in 2008 by Ben Bernanke during the global financial crisis. Rates were cut to zero and we saw a decade (and counting) of quantitative easing. This has continued during the Covid-19 crisis.

It means that the past 33 years, my entire working career, have been characterised by three things.

First, a buy-the-dips mentality where if the market gets into real trouble the Fed will bail you out — an extreme version of moral hazard. Second, the Fed balance sheet has ballooned along with those of all other central banks. And third, in the latest crisis, central banks and governments have worked hand-in-glove, dangerously blurring the line between the two.

All of which raises serious questions:

Has my entire investing career been a somewhat glorious aberration, with the Fed riding to the rescue for 33 years, helping spur along a prolonged bull market?

Is it now possible that markets will return to their pre-1987 form, where they were left to their own devices and no-one got bailed out?

Is the Fed now out of ammunition?

Well, it is certainly the case that the Fed has used an extraordinary amount of stimulus over the past three decades. The same is true of central banks in the UK, Europe, Japan, China, Switzerland, Australia and Canada, whose combined balance sheets now comprise almost half of global GDP.

It's not just central banks; governments during this 33-year period have also expanded their balance sheets, taking on huge quantities of debt, partly to fund increasingly populist policies and partly due to their own repeated bail-outs of consumers, corporates and banks.

It's a model some describe as crony capitalism, where the rich harvest strong asset returns through invested wealth in the good times, and are bailed out by taxpayers when the proverbial connects with the fan.

But it is fraught with moral hazard, spawning startling rises in inequality as money creation has been narrowed down to those lucky enough to have stores of wealth to start with.

The result is government finances in a parlous state.

Government debt-to-GDP ratios are above 100% in the US, China, Italy and Japan. Debt traps loom for many countries where the interest burden on debt outstrips economic growth.

So, what to do? Well, once debt ends up on government balance sheets, it has to be resolved in some way.

One option is higher taxes or lower spending after Covid-19. But somehow I doubt this will happen. More likely is that higher inflation will be allowed to take place to "inflate away" the debt over time. And what better way to kick off the process than by monetising the debt using central banks.

From a government's point of view, this has two "benefits" — the debt vanishes, and this creates inflation in the real economy. This has already started.

During Covid-19, the entire enormous issuance of US Treasury bonds is being purchased by the Fed. If this is not sold onto other (real) market participants, then the debt vanishes onto the Fed balance sheet, boosting money supply.

It means that the M2 money supply in the US is growing, on a three-month annualised basis, at 40%; and at 80% for the M1 money supply. We have not seen anything like this since World War 2. And the effect then was highly inflationary (with a lag).

It means the Fed is injecting money directly into the real economy (alongside the government) by sending cheques to US households and by direct lending to all kinds of business — of whatever credit quality.

Still, we'll most likely see deflation before we see inflation, since the amount by which the economy is operating below capacity is very high. This phase may well last some time, particularly in vulnerable countries like SA, where the impact of the lockdown is devastating.

All of this of course makes asset allocation extremely complex.

This will be the first time in 30 years that the world has faced a period of possibly uncontrolled inflation. Not everyone is even old enough to have the experience to reflect on such a period.

In such a world, you have to find stores of value that can protect savings from the ravages of being inflated away. Fiat currencies, like the dollar, may become diluted by loss of confidence.

Many people are turning to gold as the ultimate store of value while some are adding cryptocurrencies to that list, with bitcoin and ethereum the main contenders. Commodities tend to perform well in times of inflation; as do government-backed inflation-linked bonds, and real assets in secure projects with inflation-linked revenue streams.

We may be at a major turning point after 33 years of bail-outs. But the best bet is still a well-balanced portfolio of equities, bonds, real assets and gold-type stores of value.

## US retail soars

**BALTIMORE (AP) — American shoppers ramped up their spending on store purchases by a record 17.7% from April to May, delivering a dose of energy for retailers that have been reeling since the coronavirus shut down businesses, flattened the economy and paralyzed consumers during the previous two months.**

The government's report Tuesday showed that consumers' retail purchases have retraced some of the record-setting month-to-month plunges of March (8.3%) and April (14.7%) as businesses have increasingly reopened. Still, the pandemic's damage to retailers remains severe, with purchases still down 6.1% from a year ago.

Last month's bounce-back by consumers comes against the backdrop of an economy that may have begun what could be a slow and prolonged recovery. In May, employers added 2.5 million jobs, an unexpected rise that suggested that the job market has bottomed out.

Still, a big unknown is whether early gains in job growth, retail sales and other areas can be sustained in the coming months or whether they may plateau at a low level.

“This may very well be the shortest, but still deepest, recession ever,” said Jennifer Lee, a senior economist at BMO Capital Markets. But she added that it’s “not likely that we’ll see a repeat in June as this is pent-up demand unleashed in one month.”

The return of shoppers last month was likely aided by the \$3 trillion in rescue money that the federal government has provided to companies and households. Americans’ retail purchases would need to surge by an additional 9% to return to their level before the pandemic.

Any sustained recovery, though, will hinge on an array of factors: The path of the coronavirus, how willing people are to shop, travel and congregate in groups, how many businesses manage to stay open and rehire many workers and whether the government provides additional support.

“While the big increase in retail sales in May is encouraging, there is still a huge amount of uncertainty about the strength of the rebound,” said Gus Faucher, chief economist at PNC Financial Services. “It depends on a lot of factors outside of the economics.”

The virus-induced recession not only diminished spending in most sectors of the economy. It has also accelerated shifts in where people shop and what they buy. The changes forced by the coronavirus have aided online retailers and building materials stores and other outlets that stayed open during the outbreak. Other businesses are facing persistent financial strains.

Extending an ongoing shift in shopping habits, Americans last month stepped up their purchases at non-store retailers, which include internet companies like Amazon and eBay, by 9% after boosting such purchases nearly 10% in April. This category of sales is up a sizable 31% from a year ago.

When consumers do make purchases at physical stores, they’re increasingly doing so for such items as buildings materials and groceries. Building materials stores posted a monthly gain of 11% last month and year-over-year growth of 16%. Shoppers have increased their grocery purchases by an annual 14%, with fewer of them dining at restaurants because of the pandemic.

Shoppers last month vastly increased their spending in other categories, too, though some of these sectors still face a dim future given the blows they absorbed in March and April. Clothing purchases soared 188% from April to May but remain down 63% over the past 12 months. Though consumers ramped up their spending at furniture stores by 90% last month, sales remain down more than 21% year over year. The same pattern holds for restaurants, electronics stores, department stores and auto dealers.

Americans’ retail purchases account for roughly half of all consumer spending, which fuels about 70% of total economic activity. The rest of their spending includes services, from cellphone and internet contracts to gym memberships and child care.

Nearly 80% of small retailers and restaurants tracked by the scheduling tool [Homebase](#) that were closed in mid-April have since reopened. Yet these smaller businesses remain under pressure. Their stresses in part reflect changes emerging as social distancing has become essential and shopping habits evolve.

One such retailer, CPW, a women’s clothing store, has been in business for 30 years on Manhattan’s Upper West Side. A three-month shutdown resulting from the virus meant the store retained only 20% to 30% of its sales as the owner, Linda Wolff, packed and delivered orders to customer homes. Though CPW reopened for curbside pickup a week ago, Wolff said she hasn’t rung up a single such sale.

“This is my heart and soul,” she said. “I am exhausted from all the worrying.”

Some national chains, by contrast, say they have so far avoided their worst fears. Macy's CEO Jeff Gennette has said that his company's reopened stores are regaining 50% of their typical business. Teen retailer American Eagle Outfitters is faring even better, averaging roughly 95% of its normal sales levels.

But analysts caution that some of the gains in Americans' retail spending thus far probably reflect the impact of temporary government aid and expanded unemployment benefits in the face of a deep recession. The jobless rate is a historically high 13.3% by the government's standard measure and an even worse 21.2% by the broadest gauge of unemployment. For now, Americans are spending disproportionately more on essentials and less on luxuries.

The lockdowns sent many mall-based chains further into peril. These retailers furloughed workers, slashed costs to preserve dwindling cash reserves and, in the cases of Neiman Marcus, J.Crew and JC Penney, filed for bankruptcy protection.

These troubles have contrasted with renewed strength for Walmart, Target and Home Depot, which were deemed essential businesses from the start and were allowed to remain open.

Coresight Research, a retail research firm, expects between 20,000 and 25,000 stores in the United States to close this year, about 60% of them in malls. That's up from the firm's previous estimate in mid-March of 15,000 closings, and it would surpass the record 9,000 stores closures last year. In the past week, Zara, Children's Place and Signet Jewelers all announced hundreds of store closures and stressed the rising importance of their online presence.

# Africa's surprise!

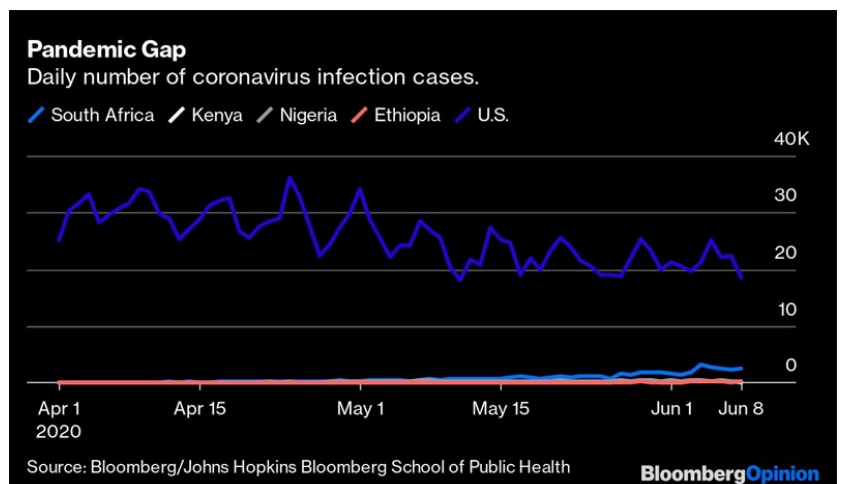
By Matthew A. Winkler

(Bloomberg Opinion) – Obscured by the myriad stories of coronavirus global devastation are three headlines from the continent with no shortage of epidemics, man-made and natural disasters. That would be Africa. Of its 54 countries, six are among the top 10 fastest-growing economies in the world this year. The continent is the favourite bazaar for appreciating equity after Eastern Europe and has one of the stock market's best-performing industries: communications.

Africa finds itself with fewer Covid-19 cases than other heavily populated regions. Even after testing almost tripled to 1.2 million, the director of the Africa Centres for Disease Control and Prevention, John Nkengasong, said the continent's percentage is relatively small.

Africa has the largest percentage of youth in the world, a higher average temperature and relatively more people outdoors most of the time, according to an April 28 report in the *Financial Times*.

Although South Africa remains an outlier, with surging daily Covid-19 infections similar to the US rate, Ethiopia, Kenya and Nigeria reflect the continent's low percentage of



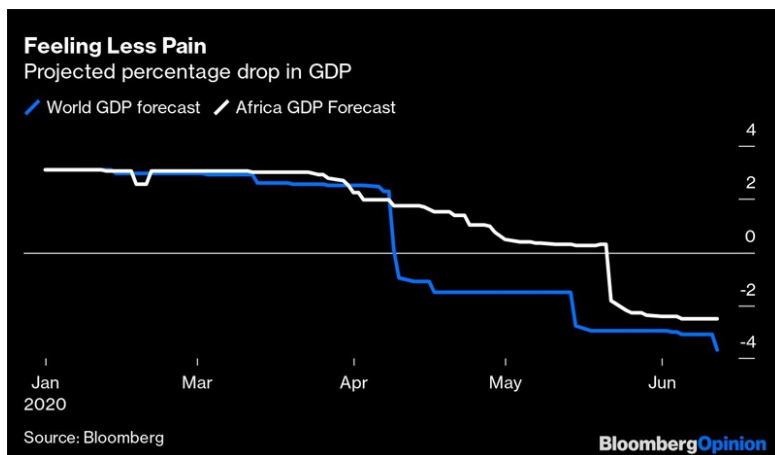


cases relative to its population, according to Bloomberg News and the Johns Hopkins Bloomberg School of Public Health. Even as the US daily infection rate based on population declines, the measure is still 24 to 46 times higher than in Ethiopia, Kenya and Nigeria.

The trend has its roots at the beginning of the 21st century, when another pandemic threatened much of the world. Ever since the 2002-2003 outbreak of severe acute respiratory syndrome (SARS), when the continent's sole infection was in Cape Town, Africa has leapfrogged the developed world in gross domestic product with a steadily growing share of global GDP, according to data compiled by Bloomberg.

Most recently, some 38 economists who contribute to Bloomberg cut their 2020 forecasts for the world, from a 3% growth rate to a decline of 3.7%, while simultaneously predicting a much less precipitous slide for Africa: from 3% growth to a decline of 2.5%. If these forecasts prove accurate, Africa would be among the half-dozen best-performing 18 major regions in 2020, according to data compiled by Bloomberg.

Africa dominates the list with countries forecast to grow the most in 2020. Rwanda is projected at 3.2%, Ethiopia and Ivory Coast at 3%, Uganda at 2.8% and Ghana at 1.9%, according to data compiled by Bloomberg. That helps explain why stocks from North America, Western Europe and Asia Pacific contributed 3, 2 and 1 percentage points, respectively, to the world benchmark's 8% loss, and Africa contributed just 0.24 percentage point to the deficit. It remains the best performing region, similar to Eastern Europe (0.2 percentage point), according to data compiled by Bloomberg.



While the world equity benchmark declined 4% in 2020, Africa lost just 1%. Communications companies in sub-Saharan Africa so far this year lead all industries in Africa with a total return (income plus appreciation) of 22% — more than twice the 9% earned by global health-care companies, the No. 1 performing industry in the world.

Africa's appreciation in the stock market coincides with a similar rally by the continent in the emerging market for sovereign debt. After lagging much of the past two years, Africa's sovereign debt gained 24% since the beginning of April, or more than double the entire market's 10%, according to the Bloomberg Barclays Indexes.

None of these achievements apparently were anticipated by some of the biggest investors, who retreated from emerging markets earlier this year when the coronavirus became a global pandemic. BlackRock, the largest money manager with \$7.4 trillion of assets, allowed its Africa investments to decline 24% to \$8.3 billion. Its Asia Pacific investment declined 20% to \$115 billion, and its Eastern Europe valuation fell 31% to \$9 billion, according to data compiled by Bloomberg.

All of which shows that Africa is the biggest economic and financial surprise in these perilous times!