To the Point - *Light in the lockdown-tunnel*

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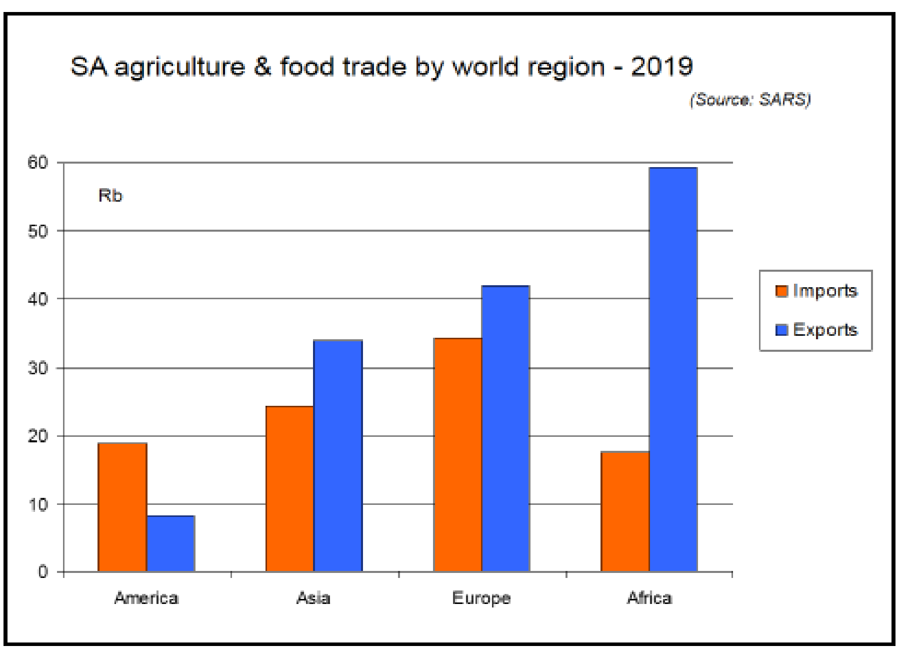
Not since the Great Depression almost a century ago have so many countries simultaneously been confronted with a so-called "black swan" event that has resulted in a sudden and profound economic contraction.

Fortunately, this is where the parallel ends, and there exist numerous comforting reflections on the imminent demise of "lockdown lethargy".

Firstly, since the previous universal recession, the world has progressed through two new technological revolutions that have dramatically altered the composition of economic output. Although the latest one of these technological revolutions is still in its infancy, especially in developing countries, the world at large does not rely on the primary or secondary sectors of the economy to generate economic growth and formal sector employment.

The services sectors now contribute more than 80% of total GDP in the US, the UK and France. At a level of 70%, South Africa is not far behind the leaders of the relentless advance of the services sectors.

Secondly, economic activity will not grind to a halt. A variety of economic sectors will continue to perform well, including financial intermediation, on-line retail outlets, the development of mobile application software, health care, processed food, nutritional supplements and pharmaceuticals. Importantly, the supply chains of most of these sectors have been excluded from the enforced social distancing regulations.



A third issue is the fact that South Africa is in the fortunate position to possess abundant food supplies and is a net exporter of food to a large number of countries, especially in Africa. It should also be noted that bumper crops are expected as a result of good summer rains in many parts of the country.

Furthermore, the downgrade of South Africa's sovereign debt to sub-investment grade by Moody's has long since been priced into capital market indicators and has prompted Pres. Ramaphosa to expedite government's new-found commitment to implement structural and market-friendly economic reforms.

Since February, the rand has suffered the same fate as virtually every emerging market currency, namely a sharp depreciation against a US dollar that is now over-valued to the tune of more than 25% (in real terms).

Attractive return on SA bonds

The current yield on the country's long-term bonds is a mouth-watering opportunity for fund managers with wider discretion than the quite narrow guidelines of ratings agencies. Bond yield spreads between high-income countries and emerging markets have hit record highs in recent weeks.

With negative real bond yields in the US, Japan, Canada and the European Union, it is inevitable that fund managers will seek to diversify investments in emerging markets that tick the crucial boxes relating to the size of the economy, the quality of financial markets and corporate governance standards. Guidance to these and other indicators of global competitiveness is provided annually via a comprehensive assessment by the World Economic Forum (WEF).

South Africa is in the fortunate position to enjoy rankings in the top quintile for a number of key indicators, including equity market capitalisation as a percentage of GDP, the cost of starting a business, mobile phone subscriptions, budget transparency, financial market sophistication and road connectivity.

Based on an objective evaluation of South Africa's economic profile, including its highly diversified economy (70% of GDP is generated by the services sectors) and its pivotal role in the well-being of the SADC region, the country's bond yield should be in the same broad category as its Brics partners.

It seems almost inevitable that South Africa's bond yield will recover in the aftermath of the Covid-19 lockdown. The discrepancy between the country's bond yield and the WEF's competitiveness rankings will undoubtedly catch the eye of scores of fund managers around the globe and the yield could soon move back to single-digit territory.

Countries with lower bond yields, but worse global competitiveness rankings than SA		
	GCR ranking	10-year bond yield
Morocco	75	2.73
Vietnam	67	3.38
Peru	65	4.58
Philippines	64	5
India	68	6.14
Brazil	71	7.82
Bangladesh	105	8.84
Pakistan	110	9.81
Sri Lanka	84	9.94
South Africa	**60**	**11.63**
Note: *Ranked by increasing bond yield*		
Sources: *Investing.com; WEF*		

Equity markets have always recovered swiftly from various other health epidemics over the past two decades. In the case of the outbreak of swine flu in 2009, average global equity prices recovered by almost 60% within a year.

A significant positive development for post-Covid-19 growth prospects is the return of some common sense at the Reserve Bank, with the repo rate at last having been lowered by a meaningful margin of 100 basis points and more rate cuts in the offing. This will lower the cost of working capital and enhance the spending power of millions of South Africans with debt.

Swift recovery in China

Last, but not least, is the welcome news on the Chinese composite Purchasing Managers' Index (PMI), which has surged back to 53 in March from a record low of below 30 in February, much stronger than expected by economists. Crucially, this lifts the PMI in the world's second-largest economy above the 50-point mark that separates monthly growth from contraction.

In these times of unparalleled frustration and anxiety, it should be remembered that, in economics, we turn Newton's Law on its head: what goes down, must go up again!

Despite the obvious short-term economic instability and the trauma induced by enforced restricted movement, there is no need for panic. Remember that the pandemic will pass.

South Africa now has a President that fully realises the overriding importance of economic growth and employment creation and the implementation of policies to this effect will gather momentum during the second half of the year.