MEMO FROM THE CIO

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As I write our maiden memo to clients, the world is confronted with an invisible virus that threatens the health of people. Consequently, economic activities have ground to a sudden stop leading to loss of livelihood of so many families. Our prayers are with the country especially residents of the Greater Accra and Greater Kumasi areas, mostly deeply hit by the COVID-19 crisis.

We entered 2020 with more concerns than optimism. Our opinion was not based on foreknowledge about the coronavirus, but rather in response to the hurdle investors face this year - trade tensions, slowdown in global economic growth and mounting debt levels in Ghana. These underlying challenges have been compounded with the impact of the COVID-19 on global economy. Travel restrictions, slump in oil prices, trade uncertainty and supply chain disruptions are the immediate pain points. We expect confidence, capital investment and consumer spending to be some of the key issues to tackle post the COVID-19. Outlook remains gloomy for the second quarter of 2020, while the breadth and depth of the effects of the COVID-19 is unknowable.

What we know at this point is that COVID-19 will lead to an unprecedent destruction of economic activity. The world is at a sudden stop and there is no precedent to this type of destruction. The minister of finance projects that Ghana will lose over GHS 9bn in revenue as a result of the COVID-19. Consequently, we expect a wider deficit leading to increased borrowing. However, it is impossible to quantify the human cost, in terms of illness. Also, the loss of livelihood of so many families is now in severe jeopardy.

For a country like Ghana, the impact of the COVID-19 goes beyond the loss of GHS 9.0bn revenue and a wider deficit for this year. The country has spent the better part of the last decade contending with the energy crisis and the financial sector crisis. The energy crisis costs us USD 622.0m per annum (USD 1.9bn over the three-year period, 2012-2015), according to the Institute of Scientific, Social and Economic Research. The minister of finance pegs the cost of the financial sector bailout at USD3.5bn. This puts the total cost of the financial sector crisis and energy sector wobbles at USD5.4bn -11.4% of the country's GDP. Over the same period (2012-2019) the value of the local currency has weakened fivefold against the US dollar. Given the impact of the energy crisis and the financial sector bailout on the country's fiscal health, can Ghana afford the potentially enormous imprint of COVID-19?

What has been the response of policy makers?

Central banks across the world have adopted a dovish stance in a bid to supply liquidity to the market. The Bank of Ghana has cut the monetary policy rate to 14.5% from 16%, while reducing primary reserve by 2%. This has made an immediate impact on interest rates as the central bank frees up cash. Banks in Ghana have taken a cue from their regulator by cutting lending rates by 200bps while providing moratoriums on loan repayment. While this is a step in the right direction, I hold the view that this will not necessarily replace the loss of revenue to the economy as a result of the COVID-19. Banks are the biggest beneficiary of this loose stance by the central bank as cash is freed up for treasury investing activities while asset quality controls have been loosened. This should see banks performing slightly better than other sectors.

The government has secured USD1.0bn from the IMF to help address fiscal and balance of payment needs of the country. The loan secured will focus on health and social spending to support households and firms while providing funding for the country's external needs.

I believe the policy stance of both the monetary and fiscal desk will ameliorate the pain of people especially health workers and SMEs; however, will these policies adequately address the decline in economic activities- the biggest fallout of this crisis?

Control of the COVID-19 spread is the key

My opinion is that monetary and fiscal policy is at the mercy of our medical response to the COVID-19. The effectiveness of monetary and fiscal policy depends on the ability of our medical experts to control the spread of the virus. Until the curve of infection flattens, we will not know how long the lockdown will persist and the magnitude of its impact on economic activity. At this moment it is close to impossible to know whether the policy measures by the central bank and the government are adequate. In spite of the good intention of policy makers, the solution to this pandemic is more medical than they would wish- social distancing, hospitals, ventilators and the like. When can we have our lives back, when will we have traffic in Accra (I miss the early morning rush to work), drinking spots and social gatherings?

Patient opportunism is required

In a period like this where the future is unknowable, the nerves of investors will be tested. However, I believe that selling assets in times like this will result in a permanent loss. This is guaranteed. There are two risks associated with investing- the risk of losing money and the risk of missing investing opportunities. At this moment, I believe the risk of missing out on opportunities is high. How high? I do not know!

We do not know what is ahead of us; however, what we know is that assets are selling at cheaper prices than at the beginning of the year. Ghana's Eurobonds have moved from the 104 levels to the 80 levels, while price multiples on the local bourse remain very low. Indeed, ask yourself, this question: "If I were not in the market now, would I be buying?"

What’s our response to the COVID-19?

During crisis like this, a number of bad things seemed possible, but that does not mean they will happen. Most investors fail to appreciate the distinction and thus asset prices are depressed.

This gives us an opening to add small positions in Ghana Eurobonds as we seek to protect client’s assets against depreciation. Our focus during this period is three-fold: increase allocation to near-cash, seek currency protection and add stocks that can withstand six or twelve months of revenue disappointment. Our allocation to near-cash assets, Eurobonds and stocks will be adjusted on account of new information that changes our opinion.

In spite of our decision to seek currency protection and bargains on our local bourse, we remain worried about the unknowable future. Worry keeps us on our mental toes and helps us to insist on a margin of safety for all our investments.

In doing this, it is our belief that your portfolio is prepared for things that can go wrong and if nothing does go wrong, the winners will take care of themselves.

Stay safe and observe all protocols recommended by the Ghana Health Service.