Newsletter
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Capricorn Asset Management

Outlook for 2019

The Namibian economy will probably show marginally positive growth in 2019 of 1.5% in real terms. This outcome will largely be the result of a "flattening" out of the down cycle rather than a real recovery. The down-cycle has been evident since 2016 and carried over throughout 2017 and 2018. In fact, we expect that the economy as a whole contracted in 2018 in real terms.

Ideally, in a situations like this, a country could use fiscal policy to stimulate the economy. Increasing spending on, say, infrastructure or wages gives final demand in the economy a boost and hence lifts the growth rate. However, Namibia does not have any fiscal manoeuvrability – debt levels, spending levels and deficits are already too high and threatens the country's credit worthiness.

Another option is a tax cut which leaves more disposable income in the pockets of tax payers. They then might opt to increase their spending and hence lift the growth rate. However, this means that the Government's deficit will increase and therefore, runs into the same fiscal constraints. In fact, the pressures are such that Namibians are likely facing tax hikes rather than cuts. A tax cut may also worsen the balance of payments deficit if it leads to increased imports.

As far as inflation goes, it is quite possible that Namibia will have a somewhat higher rate in 2019, before it decreases again in 2020. Seasonal patterns in the constituents of the inflation basket as well as low inflation in early 2018, the so-called "base effect", will probably contribute to a 6% plus rate at times during the year. Thereafter, we expect it to average about 5.5% in 2020. This means that Namibians should not expect wage increases much above 5% -6%.

Policy driven interest rates will largely be stable in Namibia and SA for the foreseeable future in the absence of black swans (nasty surprises). The weakness in the real economy does not justify higher interest rates. On the contrary it rather calls for policy support, which increases talk that the next move in rates could be down.

The world is experiencing a growth scare similar to that of late 2015 and early 2016. This has affected financial markets badly, especially equity markets – the S&P500, the JSE, Nikkei etc. Markets usually stop panicking when policy makers start to panic and then, after exhausting all other avenues, decide to do the right thing.

Our wish-list for 2019 and beyond is:

- A good rainy season. This will give agriculture a boost. Even though it has become smaller and smaller as a % of GDP, agriculture affects an outsized number of people directly and the knock on effects are significant. There seems to be a high degree of uncertainty regarding what to expect from the rainy season.
- Another positive boost could come from better-than-expected intra-regional trade, which will boost the income pool of the Southern African Customs Union. This in turn will alleviate the pressure on the Fiscus and might prevent tax hikes.
- Sanity prevails in the political arena. This include a sensible resolution to the bruising global trade war, the US government shutdown and Brexit, amongst other things. Add to this the wish that elections in Namibia and SA this year lead to outcomes that are better for all concerned.
- Clarity and sensibility as far as domestic policy issues are concerned. It is critically important that these are settled. Confidence is based on clarity of purpose and predictability of policy. Here we refer to things like legislative changes, land reform, NEEEF, tax rates and the currency peg.

As far as investment portfolio implications go, a cautious approach is still called for. Interest bearing assets should continue to provide a reasonably attractive, nearly risk-free return in a fluid and uncertain macro environment. This means that money market returns and bond yields, generally, remains attractive vs. other asset classes as well as vs. inflation. Inflation linked bonds are also an asset class that deserves consideration. It protects income and capital against inflation and as such serves as a hedge against “de-pegging” risk.

Perhaps the best cautious approach is to stick to a plan and/or a strategy that is in line with one’s personal goals, circumstances, risk tolerance and time horizon. By all means, rebalance a bit. However, bear in mind that asset values have already adjusted and are now discounting to the present (present value) a very bleak outlook (future value). The future may not be what it used to be, but it should prove to be better than what is currently expected.

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