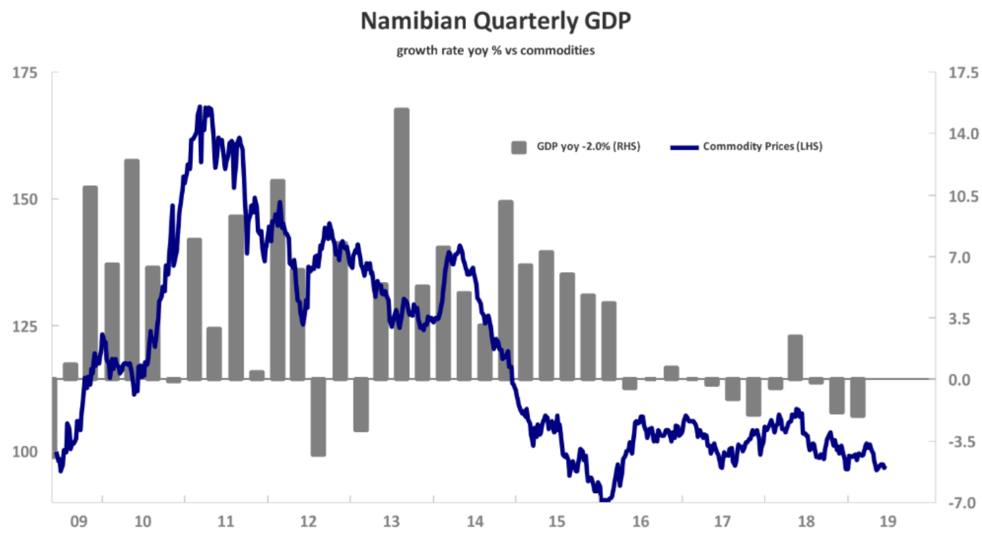
Economic Update

The macro environment has re-entered a period where growth expectations are being cut back. For instance, the Bank of Namibia, the IMF, the OECD and the SARB are seeing lower rather than higher economic growth going forward. This is applicable to most regions of the world, including Namibia.

The USA economy is currently in a strong position with low inflation and full employment. However, it seems to be at or close to a peak. Confidence measures are declining amidst the trade war and geopolitical tensions. The Chinese economy is cooling and its demand for goods and services from the rest of the world is declining sharply. The SA economy took a hit in the first quarter, declining by 3.2%. Similarly, Namibian GDP contracted by 2%. This means that we are likely to see hardly any growth this year.

The weakness in the economy is becoming more widespread. This is evident from, amongst others, the following: severe shrinkage in the sales of vehicles, slow credit growth and a hard hit construction sector in conjunction with a sharp slowdown in the property market. The mining sector has now also contracted in the first quarter, following a two-year period of strong growth.



Source: Thomson Reuters Datastream, Capricorn Asset Management

These conditions have revived fears of deflation globally and has led to a sharp moderation in inflation expectations domestically. In our view inflation is likely to remain in the 4% to 5% range in both Namibia and SA for the foreseeable future, which is until 2021. It could even fall below these levels at times. The one factor to watch, though, is maize prices. It has recently risen sharply in the US and in SA. If sustained, this could put upward pressure in the food price chain. Food, oil and the exchange rate remains, as ever, volatility drivers of inflation.

Weakening economic growth and downwardly pegged inflation provides room for monetary policy makers to consider their policy stances. Central Banks are facing an environment that is calling for lower, rather than higher interest rates. In the USA, the Fed, and in Europe, the ECB, have halted talk of a tighter policy. In the UK, the BOE is in a Brexit straitjacket. In Japan, the BoJ, and in China, the PBoC, will also cut if they can. The SARB has explicitly put a cut on the forecast horizon, initially by the first quarter of 2020. However, we now believe they will cut rates at the July meeting and the Bank of Namibia will cut in its August meeting.

Therefore, it once again, seems that monetary policy will be expected to provide relief and stimulus to economies in an environment where fiscal policy can do very little. Ideally, one would like to see governments loosen the purse strings, borrow more, cut taxes or spend more.

However, Namibia cannot afford to, because we are at the limits of fiscal ratios, while revenue is being severely constrained by economic weakness. Similarly, the SA Treasury is challenged by fiscal slippage in a contracting economy, while facing a credit downgrade later this year if current trends continue.

Our hope remains that globally, regionally and domestically, increased cohesion of policy making will be achieved, in that monetary policy alone is not expected to make all the difference, but that a comprehensive battle plan can be established that will benefit all.

From an investment perspective, one should expect that yields on the Money Market will drift down as expectations of interest rate cuts take hold. However, lower inflation means that a fair real return is still achieved.

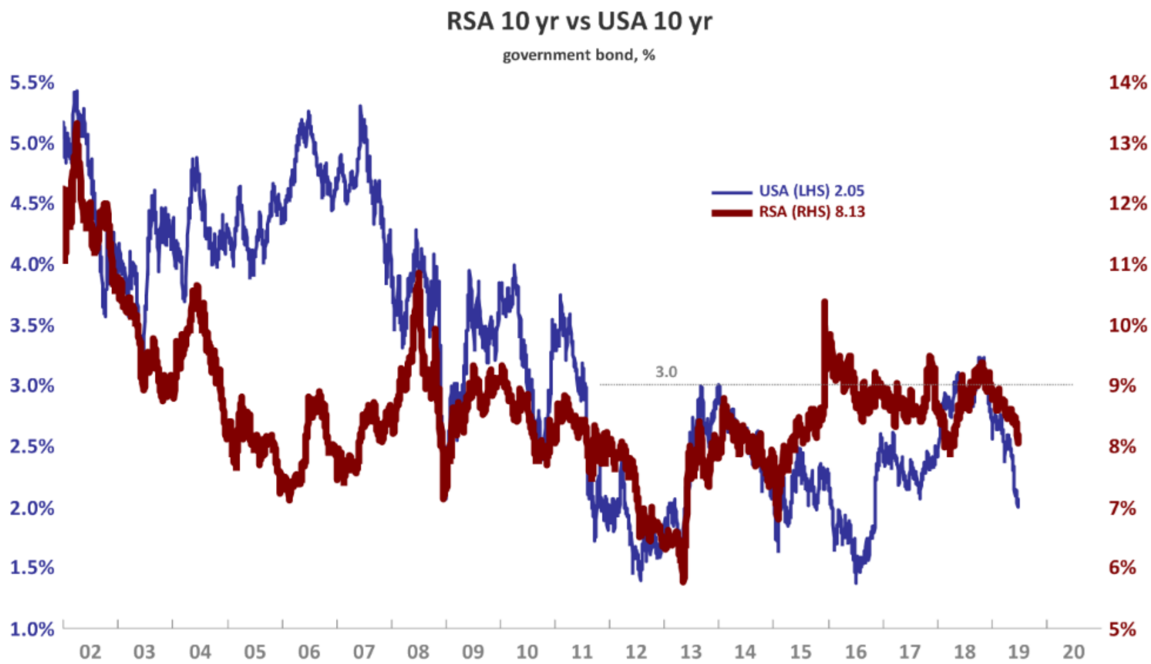
Lower interest rates will revive the "hunt for yield" theme, which should benefit high yielding bond markets like our own. Investors are likely to look to Emerging Market bonds to provide yield in a world of low and falling bond yields.

The "hunt for yield" will be a positive factor for listed property where the current yield is better than bond yields. However, this asset class will continue to be constrained by weak economic fundamentals. Rental escalations are likely to remain low and vacancies high. Costs are being pushed up via rates and taxes and the need to find alternative electricity supply sources.

The share prices of companies are unlikely to perform well in an environment where earnings are constrained. Therefore, the equity market is likely to continue to move largely sideways, with bouts of volatility to the downside and the upside as the risk-on risk-off sentiment is driven by geopolitical news and speculation about the likely reactions of policy makers.

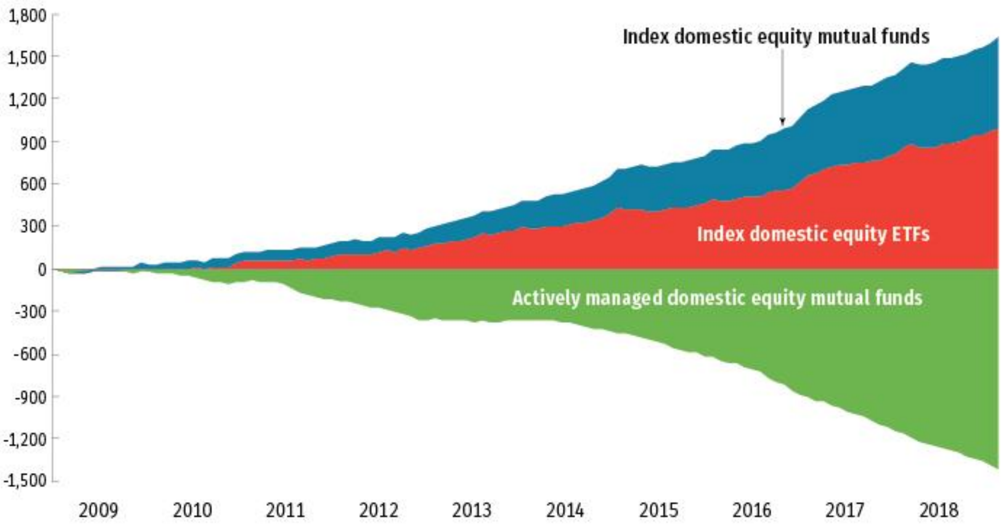
10 year generic bond yields

27-Jun-19	Current Spot
USA	2.3047
UK	0.8280
Germany	-0.3160
Italy	2.1310
France	0.0068
Australia	1.3350
Japan	-0.1380
Brazil	7.6300
Russia	7.4300
India	6.8970
China	3.2820
RSA	8.1150
GC30	9.8230



The Capricorn Equity Fund now an Index Fund

The debate over whether it is best to invest in an active selection style vs passive investments has been intensifying ever since the launch of the first exchange traded fund (ETF) in 1993. Globally though, investors have come to the realization that this is not an "either or" scenario but rather a critical decision in their overall portfolio construction process. According to the Investment Company Institute, close to 1,5 Trillion US Dollar has been withdrawn from so called "Actively managed equity" unit trusts and mutual funds since 2008 in favour of ETF's or the so called "tracking unit trusts" in the US alone.



Source: Investment Company Institute Fact Book

This should not come as a surprise. A recent study by S&P Global showed that 82% of US fund managers underperformed the S&P 500. In South Africa, more than 91% of funds underperformed the S&P South African Shareholder Weighted index.

With less than 9% of fund managers outperforming the market over a five-year period, the question becomes whether the average investor has the ability to pick the manager that will outperform their investment horizon. This, coupled with the high fees associated with actively managed funds, calls for a rethink in portfolio construction.

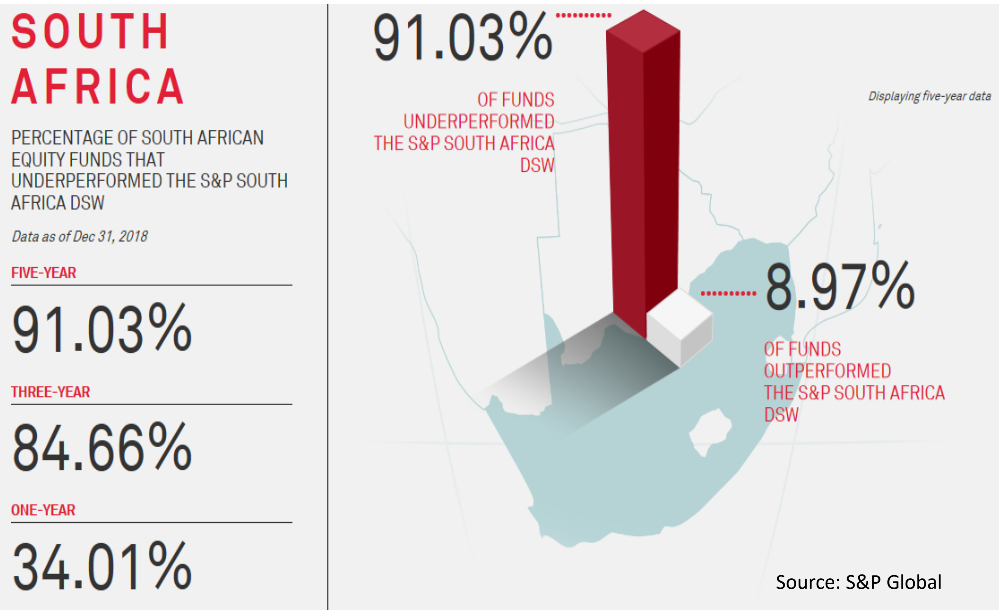
Enter the humble index fund. Indexing provides a sure bet to achieve the benchmark and reduces investment risk as well as manager risk. Index funds typically charge a fraction of the management fee relative to actively managed unit trusts and offers a well-diversified portfolio that is representative of the market in general. At Capricorn Asset Management, our philosophy of "Invest Sensibly" has triggered us to embrace the power of indexing. We believe that every portfolio that aims to achieve long-term inflation beating returns, should at its core, contain a significant indexing component to ensure market related returns and reduce overall portfolio risk, whilst at the same time reducing the overall expense ratio of the portfolio.

As from 27 June 2019, the Capricorn Equity Fund has been converted into a fully-fledged index tracking unit trust with the JSE SWIX Top 40 Capped Index as its benchmark. At the same time, we have lowered the annual management fee from 1.50% to 0.50% for the retail unit class. The fund is suited for all investors seeking a return similar to that of the JSE SWIX Top 40 Capped Index without the risk of significant underperformance vs the market over the medium to longer term.

The Fund shall also form a critical building block of the equity component of the Stable-, Premier- and Managed- Funds (the Managed Series) ensuring that active asset allocation returns are not diluted with underperformance experienced in specific stock selection.

In the construction of a portfolio, an investor with a higher risk appetite can select an indexing fund as their core holding in equities whilst also selecting a few active managers, with varying investment styles, as satellite investments.

As the market leader in providing unit trust products in Namibia, we are very excited to launch the first Namibian index tracking unit trust. Please contact your financial advisor or contact us at cam.service@capricorn.com.na



Source: S&P Global