Capricorn Asset Management
a member of Capricorn Group

Time for a mid-year review

It is useful to sometimes look back at how reality evolved relative to one's expectations – a reality check if you will – to gauge the current landscape as well as to refresh the outlook. We thought halfway through the year is an ideal time for this.

"Rising interest rates, rising inflation, rising socio-political tensions. Falling confidence, falling trade due to disruptions, shortages and market volatility..." Sound familiar? It is a quote from our November 2021 newsletter, which is three months before the Ukraine invasion. At the time, we expected much of what subsequently played out. However, the magnitude of many changes were more severe than expected and aggravated by the war in Europe.

Late last year, most analysts and commentators, including us, expected another strong growth year for the global economy in 2022, following the sharp bounce in 2021 in the wake of the Covid-recession of 2020. Initially, a growth rate of 5%+ was envisaged, which translated into a bullish outlook for stock markets. However, these expectations have been cut back sharply to between 2% and 3%, which translated to a risk of disappointment in company earnings, resulting in a bear market.

Global equities are down 19%, the S&P 500 is down 18% and the EuroStoxx 600 is down 15% YTD (year-to-date). Domestic shares fared better. The JSE All Share is down 8% and the index of NSX listed Namibian companies is also down 8%. Taken over the last 12 months the latter two are up 3% and 10% respectively.

"Inflation versus Central Banks. That is the key theme playing out in financial markets", is a quote from our January 2022 newsletter. This is still very much the case. But the intensity of debate and the degree to which monetary policy makers are reacting were unexpected, driven by a severe inflation shock.

The latter, in turn, was the result of the surge in energy costs. At the time the oil price was hovering around the mid-70 level, in line with its previous peak. This already represented a doubling in price from late 2020. However, it shot up to $100 just before the Ukraine invasion, following which it surged further to $133 – an all-time high except for the $144 it reached in July 2008, which was followed by a crash to $33. As things currently stand, it is up 55% YTD and 60% YOY (year-on-year).

As a result, fuel costs surged. But that is not where it ends. The next risk to the inflation outlook lies in the food domain, partly driven by fuel, but also by supply disruptions and adverse seasonal factors. For example, global maize prices are at record levels and SAFEX prices of yellow and white maize are up by between 40% to 45% YOY.

This changed the inflation, and with it the monetary policy trajectories, of the globe significantly over the year. A jump in consumer inflation inevitably followed a surge in producer prices, but not to the same extent, which raised fears of a margin squeeze for firms not being able to pass on rising costs fully to end-users. CPI inflation in the USA reached 8.6% at its latest reading, levels that were not expected at all at the outset of the year, and the IMF nearly doubled its expectation for global inflation from 3.8% to 7.4%.

In February, our theme was "Budgets and Bullets" as the shooting war broke out in Eastern Europe and the annual war of words started regarding the national budgets of Namibia and South Africa. We did not expect that Russia will invade. We were not alone, as is clear from the market reactions post-invasion. A crisis-weary world had to come to terms with another.

In the wake of these rolling crises, we pondered the "normalisation" question, concluding that in some instances, a degree of normalisation is still a valid yardstick for gauging likely trends. For one, in the setting of interest rates, central banks appeared to be desirous that some measure of normality be reached. For another, the real economic growth rate of 3%+ that we expect for Namibia is largely predicated on a degree of normalisation for most sectors in the wake of the relaxation of Covid-19 restrictions.

In other instances, normalisation still seems to be a long way off. The oil price, global equity markets and supply chains are likely to remain disrupted from normal trends for as long as geopolitical tensions remain high. The inflation shocks that go together with these have brought about the end of abnormally low interest rates that were in effect in many countries. The SARB and the BoN have recently decided to lift interest rates by larger increments of 50bp and we expect them to increase their repo rates by another 100bp to 5.75% by year-end.

Similarly, the Fed started to accelerate its hiking cycle and stepped back from the bond markets where it was a large buyer of assets. Together these two actions, amongst others, triggered a big bear market in global fixed interest assets. The US 10-year Treasury market has suffered its worst 12-month period up to the time of writing of the past 34 years. It is down 12.7% YOY and 13.8% YTD. The yield rose from the Covid-19-lows of 0.5% to 3.4%.

But how about domestic bonds? Thus far, as in the case of equities, domestic bonds fared much better compared to global markets. The total returns on the RSA 10-year bond are negative at -1.4% YTD, but still in positive territory at 3% YOY. This is the result of the yield rising from 9.0% early in the year to its current level of 10.4%. Namibian yields also rose, but by a smaller magnitude from 11.0% to 11.6%.

During the month Fitch downgraded the Namibian credit rating to "BB–", albeit with a stable outlook. This followed the same rating downgrade of Namibia in April by Moody's and as such was largely expected. Therefore, the current expectation is not for a further downgrade, but the "minus" means that Namibia's metrics are worse than the average BB rated sovereign, such as the deficit- and debt- to GDP ratios, the pressures on the balance of payments due to the fuel import bill and the relatively muted growth outlook.

Better economic growth, which enables sustainable fiscal consolidation that reduces deficits and debt, will support positive rating action that is an improvement in creditworthiness, which in turn, lowers the cost of funding for the fiscus and the economy.

In summary, at the halfway mark, risks abound, which is usually a good time for the bold to accumulate investment assets.

The outlook for interest bearing investments remains positive as we expect further interest rate hikes. For longer-term bond investors, the higher interest rates will impact the market value of the investments, in the shorter- to medium-term, but the very high premiums currently available, compensates investors for this, especially held-to-maturity investors. Other asset classes, such as property, local and foreign equities, are currently under pressure and arguably presents an opportunity to accumulate these assets.

Important Notice

Kindly note for all instructions sent via email, you need to have an **email indemnity** in place for enhanced security before the transaction can be executed. In order to avoid delay in your instruction, please make use of Capricorn Online to easily, conveniently and efficiently capture your instructions.

Simply complete the Capricorn Online registration form and submit it to cam.service@capricorn.com.na should you not be registered yet.

Supporting the Capricorn Eagles

On Friday, 24 June 2022, Cricket Namibia and Capricorn Group (including Capricorn Asset Management & Capricorn Private Wealth), jointly announced the extension of Capricorn Group's sponsorship to the national women's cricket team, the Capricorn Eagles. The announcement came just a day ahead of the team's departure for a European tour.

"It is a great pleasure to have an organisation like Capricorn Group on board as an official partner of Cricket Namibia. In 2021 Capricorn Group bought into the concept of promoting women's cricket in Namibia. This partnership is another very positive step as part of the Capricorn Eagles' continued growth and development," said Johan Muller, CEO of Cricket Namibia.

The Capricorn Eagles left on Saturday, 25th of June for an eight-match international tournament, going into a head-to-head battle in five T20Is against the Netherlands, and towards the end of the tour, facing Germany in three T20Is. The European tour is crucial for the Capricorn Eagles to improve in their rankings and towards executing their strategic vision for female cricket in Namibia.

We are going Social!

We are excited to announce that we have taken our first steps into the world of social media with the **Capricorn Asset Management (Pty) Ltd** LinkedIn page.

For those that might not know, LinkedIn is the world's largest professional network with more than 830 million members in more than 200 countries and territories worldwide and is often referred to as the Facebook of business.

We will utilise this page to engage more with our stakeholders through thought leadership content, industry insights, news, updates, vacancies and more!

If you are on LinkedIn, then give us a follow so that you can stay up to date with all things CAM.

Simply scan the QR code below which will take you directly to our LinkedIn page.

Capricorn Foundation

FOOD WASTE

Challenge 2022

The Capricorn Foundation announced on 30 June 2022 the launch of the Capricorn Foundation Food Waste Challenge, calling for solutions to reduce food waste in Namibia.

The Food Waste Challenge is based on an open innovation platform, allowing anyone to participate in this Challenge, offering N$100 000 for the winning solution.

"As a connector of positive change, the Capricorn Foundation seeks ideas for reducing food waste in Namibia. Every day there are tons of consumable food being discarded as waste. We acknowledge that there are ongoing efforts to address the issue of food insecurity in Namibia. Still, we are looking for new possibilities that can tip over a pivotal domino on the problem of the food waste chain that can result in exponential benefits. A solution to this problem would not only address the basic need of food security for the most vulnerable people in Namibia, but it can also positively impact our society and improve the quality of life of many Namibians. Ultimately, we are seeking solutions that would effectively lead to more food, which would have been wasted otherwise, to reach the vulnerable communities. Through this process, we also hope to increase awareness on the issue of food insecurity and the contribution that food waste is adding to this problem," said Marlize Horn, Executive Officer of the Capricorn Foundation.

Another essential objective of the Capricorn Foundation Food Waste Challenge is to encourage better collaboration between sources, distributors/receivers, and beneficiaries of food. "We are looking for any ideas or proposals that will provide original and impactful solutions for any part of the total value chain. This can range from collecting food waste from sources; verifying that it is still suitable for human consumption; and then distributing the food to receivers/distributors, where it can be further used or distributed to vulnerable communities. The proposal will be evaluated on a theoretical basis considering the current state of knowledge concerning food waste in Namibia," added Marlize.

How to Enter

The Food Waste Challenge is a theoretical challenge requiring only a written proposal.

The solver(s) will propose a solution or idea design that meets the requirements and justify it with arguments and relevant references. The proposal will be evaluated on a theoretical basis, considering the current state of knowledge concerning food waste in Namibia.

The submission deadline is **12 August 2022**, and a panel of judges representing various sectors of the economy will select the winning solution.

Visit Capricornfoodwastechallenge.skild.com to enter and view the terms and conditions.

Enquiries can be directed to Rikus Grobler, Manager: Innovation of Capricorn Group at Rikus.grobler@capricorn.com.na

The Capricorn Foundation is a non-profit organisation and registered welfare organisation (WO499) established by Capricorn Group in February 2020 as a vehicle for the Group's corporate social responsibility initiatives. Capricorn Asset Management contributes to the Foundation. The Capricorn Foundation aspires to be a Connector of Positive Change by being accountable to ourselves and our stakeholders. It seeks to make an overall positive economic and social impact on society by responsibly investing in sustainable programmes that addresses national priorities in line with national and Sustainable Development Goals.