Newsletter
March 2018

Capricorn Asset Management

Namibia 2018 First Quarter Review

In light of three consecutive quarters of negative growth, it is not surprising that Namibia's economy is estimated to have contracted in 2017 by -0.8%, which followed on a measly +0.7% in 2016. This extended period of economic weakness is expected to gradually bottom out, possibly recovering to +1.5% and +2.5% in 2018 and 2019 respectively, mostly driven by a bounce in the primary sectors.

The weakness in the economy is evident in the private sector credit extension (PSCE) rate which, at 5.7% in February, was 3.3% lower than a year ago. Consumers were hard hit by the recessionary conditions, which in turn reduced business' incentive to take on more credit. The annual average of the PSCE has been declining over the past several years but 2017's average of 6.9% marks the first time it has been in single digit territory in a long while.

Inflation came tumbling down to 3.6% in January, followed by 3.5% in February. This is half the rate of inflation a year ago. Housing and utilities, the highest weighted category in the consumer price index grew by an average of 9.2% last year but took a dive below the four percent mark this year mostly due to falling rental prices. The downward trend in food inflation continues as it has fallen to 2.0% from above 11% previously; primarily driven by a 4.2% contraction in the price of bread and cereals. Transport costs seem to be on the rise again having risen by 6.6% in the second month of the year which is an increase from 4.7% where it was in February of 2017. Domestic factors such as weakness in consumption could keep prices low, however, if global fuel prices continue to strengthen, not only will local transport costs be affected but it would trickle through to inflation in other consumables.

Fiscal policy will remain contractionary over the medium term (ending 2021) in order to stabilize deficit and debt levels. In order to reign in the deficit without crippling the economy, spending will be allowed to increase marginally over the next three years and preference will be given to developmental expenditure on social and transport infrastructure. The other side of a deficit reduction is an increase in revenue and various interventions have been adopted to make this happen. Possible threats to the achievement of fiscal sustainability and the stimulation of growth as envisaged by this year's budget are: a revenue shortfall due to lower than expected SACU receipts and unbudgeted expenditure such as transfers to SOEs and catering for the wage bill which accounts for approximately half of total income.

In the interest of protecting the Namibia Dollar's peg to the South African rand, the central bank has kept its policy rate flat since mid-2017. The political events during the course of last year made it difficult for the SARB to cut rates, even while the economy was very weak and inflation was falling. More clarity around politics and policy has been established since then. Meanwhile, Moody's has kept its investment grade rating on SA debt, which provided the degree of comfort that the SARB was looking for in order to cut its policy rate late in March to 6.5%. This means that the prime rate in SA is now 10% and that interest rates in Namibia will also go a little lower.

Currently real interest rates are marginally in our favour compared to larger advanced nations such as the USA; hence our fixed income securities are

still relatively more attractive. A quarter of a percentage interest rate reduction will not affect our advantageous position straightaway. However, the rate at which interest rates are hiked in advanced countries could change that.

The SA political spectacles which ensued during the course of 2017 had negative consequences for equity markets and especially property markets which of course spilled over into our domestic sphere. Anxiety over instability in SA and Namibia ought to subside somewhat going forward. This should help to improve business confidence to some degree. Nevertheless, policy uncertainty and corporate malpractice still pose risks to the economies of both countries, which will find expression in our financial markets, if these risks come to fruition.

Going forward the country's hopes for economic expansion still rest on the primary sector. As the drought conditions abated, agriculture began to make a significant contribution to total output. The other notable positive contributor to growth is the mining sector and it is expected that zinc, diamond and uranium production will grow in 2018.

Twenty-seventeen began and ended with a bang. Given the mellow start to 2018, it seemed that we were due for a quieter year. However, volatility remains the order of the day.

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This feature enables you to view your Unit Trusts on the Capricorn investment platform, make additional deposits or easily request withdrawals.

The cut-off times on Namibia business days for any investment deposit or withdrawal to be effected the same day is 11:00.

Any deposit or withdrawal instructions received after the indicated cut-off times will be processed the next business day.

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Investing in the Capricorn Equity Fund

The Capricorn Equity Fund is a general equity fund that aims to provide the investor with an exposure to a widely diversified range of listed shares.

The fund is suitable for the investor seeking a high level of capital growth coupled with a consistent level of dividend income. The fund distributes four times per annum.

The fund has a higher level of volatility over the short term and the ideal investment horizon is therefor 5 years and longer. Retirement funds are not precluded from investing in this fund.

As from 1 April 2018 the fund's benchmark will change from the FTSE/JSE Top 40 Shareholder Weighted Index to the FTSE/JSE Top 40 SWIX Capped Index. The main reason for this change in benchmark is due to the current Naspers exposure not being compliant with the fund mandate. Naspers, although a good company, is dominating our current benchmark with a weighting of greater than 30%. Such a big exposure to a single security is not a prudent allocation within the fund and is inconsistent with our philosophy to Invest Sensibly.

Although the equity markets have shown some volatility these past months due to a global sell-off driven by fears of rising interest rates, the appointment of South Africa's President Ramaphosa has been well received. Our view is that fiscal austerity is likely to stave off a credit downgrade of South Africa debt by Moody's. A very strong global economy and hopes of recovery in South Africa should be supportive of equities going forward.