Newsletter | May 2023

Capricorn Asset Management
a member of **Capricorn Group**

Monthly Economic Overview

"Sell in May and go away."

This is an old saying in the markets, based on an urban legend that the middle months of the year, specifically that of the Northern Hemisphere summer, may not be a good season for investors. At times this is true, and surely felt true this month. However, despite all the negative news flow, at the time of writing, the global equity market was flat. However, due to currency weakness they delivered 7% for the month and 18% YTD in Namibian dollar terms. It once again brought to the fore the importance of being diversified to offshore investments.

Relentlessly rising short-term rates have resulted in much improved money market returns, with the Capricorn Investment fund rate increasing to 8.14% from 7.00% at the start of 2023. However, domestic (SA) politics and policy risks, combined with geopolitical tensions, brought about a very risk averse stance toward SA bonds and the currency. The bonds are trading at attractive yields and the currency seems to be undervalued. These conditions are likely to persist for a while.

Economic activity is holding up better than expected, for now. However, we think that the lagged effect of synchronised global monetary tightening remains to be felt in slower growth. The International Monetary Fund (IMF) expects global real growth of 2.8% in 2023 and 3.0% in 2024. In most developed economies, labour markets remain tight. This means that unemployment is low and that wages are growing. We expect that Namibia will grow between 2% and 3% this year and next. However, South Africa will probably experience a recession, which will be a confirmation of its general condition.

In most instances, we continue to observe a gradual decline in inflation. USA consumer prices rose by 4.9% yoy in April, having peaked at 9.1% in June last year, while producer inflation reached 2.3%, having peaked at 11.7%. In SA, consumer inflation dipped to 6.8% in April, and in Namibia to 6.1%.

The combination of lower inflation and a weaker growth outlook has brought the peak in policy rates into view. The Fed is expected to raise rates one last time in its next meeting on the 14^{th} of June. This will bring the Fed rate to 5.5%. On the same day, the MPC of the Bank of Namibia (BoN) will deliberate on the Namibian repo rate. We expect them to raise the rate by at least 25bp and possibly 50bp. It all depends on how comfortable BoN is with the rate differential to South Africa, given that their primary concern is the currency peg. For as long as it does not lead to destabilising capital flows, the differential can be maintained, with higher market liquidity in the near term.

The SARB lifted its repo rate by another 50bp in May to 8.25%, which resulted in a prime rate of 11.75%. It brings the number of hikes over the past 19 months to 10 for a total of 475bp. The primary concerns of the SARB MPC are inflation and the expectations surrounding it, as well as credit growth, that is the demand for capital, which has been quite strong, despite the weak economy.

Furthermore, of late, the shock to the currency, which put the SARB on edge, also raised inflation risks, particularly as it relates to fuel. Thanks to a declining dollar oil price, its price in Rand has not risen by much so far, but oil and fuel remain a risk to the inflation trajectory. However, energy prices in general, have come off the boil significantly following the shocks of 2022. Grain prices, in general, have also declined quite sharply, compared to a year ago. Global maize (-26%), global wheat (-46%), SA yellow maize (-25%), white maize (-25%) and wheat (-25%), should contribute to the lowering of price pressures in the food producing value chain.

All things considered, our view is that inflation in SA and Namibia will continue to decline to close to the 4.5% mid-point of the target range by the end of the year. In the USA, we expect consumer inflation to

be close to 3% by year's end. This means that by that time, prompted by a slowing economy and dragged-out banking stresses, the Fed ought to be in a position to lower rates and ease global financial conditions, even though inflation should reach the official 2% target only late in 2024.

We do not expect interest rate cuts during 2023. But with the Fed in easing mode by early 2024 and inflation dipping, the SARB and the BoN should be able to also take their foot off the brakes.

A word on the currency peg

Talk of de-linking from the rand has gained prominence, due in large part, to the rand's recent sharp depreciation. We hold the view that the benefits derived from our continued peg arrangement far outweigh the disadvantages.

The rand, like many global currencies, undergoes periods of strengthening and weakening. It is also important to note that the rand is a commodity currency, which means that when prices and demand for commodities fall the currency tends to weaken.

For a small open economy like Namibia, a free-floating currency regime offers limited protection against speculative attacks on the currency and subsequent financial instability. One of the biggest benefits of the peg arrangement is that it provides the domestic economy with price stability and predictability. By pegging to a relatively low-inflation country like South Africa, Namibia imports low inflation and the ability to maintain price stability is enhanced. The inflation targeting monetary policy of the SARB enjoys high credibility internationally. Together with price stability the peg arrangement also enhances fiscal prudency to a degree, reduces monetary disturbances and promotes credibility which increases investor confidence in the local economy, which is critically important for economic growth.

Another benefit is the free flow of capital between Namibia and South Africa, which provides access to deep and liquid financial markets for local savers and investors without exchange rate risk. Furthermore, the peg provides a mechanism for the automatic stabilisation of money supply, which enhances financial stability to a great extent.

Importantly, the peg to the rand reduces the unfavourable effects of currency fluctuations, because Namibia is a net importer of goods and services from South Africa our biggest trading partner. Any alternative currency regime will have a strong rand bias in any case.

The reality is that Namibia is quite small in the global context. Stocks of foreign exchange reserves are too low to protect a free-floating currency. It is difficult to say whether an independent Namibia dollar would be weaker or stronger than the rand. An independent Namibia dollar will be very volatile and unpredictable, especially now, given the global market movements and the openness of the local economy and dependence on commodities.

The economic situation in South Africa is 'shaky', but not so bad that Namibia should seriously consider de-linking from the rand. Even if the Namibian dollar were to de-peg, the currency would still undergo periods of depreciation and shocks like any currency, especially those that are commodity linked. In the current environment, a weaker currency assists in making exports more competitive and increases the earnings of exporters as well tourism related industries, both critical for economic growth.

Safeguarding your Investments

In today's interconnected world, where technology plays a pivotal role in our financial lives, understanding and mitigating cyber risk has become a critical aspect of investment management. Cyber threats pose significant challenges to individuals, businesses, and financial institutions, making it imperative for investors to be aware of potential vulnerabilities and adopt robust cybersecurity practices. This article aims to shed light on cyber risk and provide insights on safeguarding personal account data in the financial realm.

Understanding Cyber Risk

Cyber risk refers to the potential harm arising from unauthorized access, disruption, or misuse of information systems and digital assets. In the financial context, it encompasses threats such as data breaches, phishing attacks, ransomware, and identity theft, which can result in financial losses, reputational damage, and compromised personal information. Recognizing the evolving nature of cyber threats is crucial, as attackers continuously adapt their methods to exploit vulnerabilities.

What to Look Out for and How to Keep Your Personal Account Data Secure

Strong Passwords

Use complex and unique passwords for financial accounts, combining uppercase and lowercase letters, numbers, and special characters. Avoid re-using passwords across platforms and consider using a password manager to securely store and generate passwords.

Two-Factor Authentication (2FA)

Enable 2FA wherever possible, as it adds an extra layer of security by requiring an additional verification step, such as a unique code sent to your mobile device, along with your password.

Phishing Awareness

Be cautious of suspicious emails, messages, or phone calls requesting personal information or login credentials. Avoid clicking on links or downloading attachments from unknown sources, as they may contain malware designed to compromise your accounts.

Software Updates

Regularly update your operating system, antivirus software, and financial applications to ensure they have the latest security patches. Outdated software may have known vulnerabilities that can be exploited by cybercriminals.

Secure Networks

When accessing financial accounts online, use secure and encrypted Wi-Fi networks. Public Wi-Fi networks, such as those found in cafes or airports, are often insecure and may facilitate unauthorized access to your data.

What to Avoid in order to remain secure

Suspicious Websites

Exercise caution when visiting unfamiliar websites, especially those promising unrealistic investment opportunities or requesting excessive personal information. Stick to reputable financial platforms and verify the legitimacy of websites before sharing any sensitive data.

Sharing Personal Information

Avoid sharing sensitive personal or financial information, such as Social Security numbers or account credentials, via email or on unsecured websites. Legitimate financial institutions would not request such information through insecure channels.

As investors embrace the digital era, understanding and mitigating cyber risk has become essential to financial management. By adopting robust cybersecurity practices, such as using strong passwords, enabling 2FA, and staying vigilant against phishing attempts, individuals can protect their personal account data and minimize the potential impact of cyber threats. Remember to stay informed about evolving cyber threats and leverage the provided insights to enhance your knowledge and resilience against cyber risks.

Taking Action

At Capricorn Asset Management we are committed to ensuring the safety and confidentiality of your investments in today's digitally interconnected world and prioritises the security of your personal information. We assure you that we will never contact you to request your account information or password information.

If you receive any communication purporting to be from us, concerns you or appears suspicious, please contact us immediately at 061-299 1950 or email us at cam.service@capricorn.com.na.

The importance of ongoing Enhanced Due Diligence and Reverification

Capricorn Asset Management is an accountable institution and as such we need to comply with the Financial Intelligence Act (FIA) 13 of 2012 of the Republic of Namibia.

You may be contacted by our office to supply us with the relevant documents in order to comply with the Act. We therefore humbly request your co-operation with regards to client information requests. This will aid in keeping your accounts with us in compliance with the Act and thus making transacting more efficient.

Only submit these documents via the following means:

- cam.reverification@capricorn.com.na
- Our offices
- At any bank Windhoek branch for the Attention: Capricorn Asset Management