Newsletter | November 2020

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

Holiday Operating Hours

Our office will close at 11:00 on 24 & 31 December 2020.

Should you wish to make deposits or withdrawals on your investment portfolio on the above mentioned dates, please ensure your instruction is submitted by 10:00 in order to ensure timely processing of your instruction.

You may submit your instruction on the Bank Windhoek App or Internet Banking platform or via Capricorn Online.

If you have not yet registered for Capricorn Online please contact our sales team at 061 299 1950 or cam.service@capricorn.com.na

Being Connectors of Positive Change

This past year has been quite a challenging year, especially for the less fortunate within our communities. With the goal of being Connectors of Positive Change CAM supported various initiatives totaling N$ 972 110.

CAM has committed N$ 472 110 over the past year to support the less privileged. This included multiple projects as well as our signature project, Class of 20xx which is an ongoing project in which less privileged grade 1's receive school clothes to kick off their educational journey. Where possible, these clothes are sourced through local manufacturers.

In addition CAM has also allocated N$ 500 000 to support communities hardest hit in these challenging times posed by the COVID-19 pandemic. The focus was mainly to provide food, education, community development, health, safety and sanitation. The various projects we supported included the Side by Side Early Intervention Centre, The Lemon Tree Organisation, Family of Hope Services, Dolam Children's Home and Baby Haven. We also partnered with Gondwana Care Trust, Pupkewitz Foundation and Imago Dei in order to be able to make a bigger impact together.

Not only did CAM contribute as an entity, but our staff also stepped up this year to be Changemakers. With their own Impact Fund, through which they collect funds and goods through various initiatives, they were able to make a real impact. The staff provided additional support to Baby Haven, an orphanage in Katutura as well as delivered food items to the SPCA.

Should you wish to become involved in any of our projects, or donate some items to be distributed via the staff's Impact Fund, you may email us at cam.info@capricorn.com.na or call us at 061-299 1917.

Investment Overview

This time of year we often look back at the year that was and take stock to assist us in making the best possible choices for the year to come.

2020 was certainly a year to remember where Covid wreaked havoc in all economies of the world without exception. The fact is however that Covid alone was not fully to blame, especially in our local economy where we've already started to experience tough economic times over the last couple of years.

The property market slump was the first casualty and then added to that the major impact caused by the Covid lockdowns. The Namibia tourism and tourism related industries were hit extremely hard, and is still not out of the woods. It's important to note that tourism contributes roughly 18% to the Namibian economy and this industry came to an almost complete standstill.

As a result of Covid, central banks all over the world cut interest rates to unprecedented levels and in many developed markets interest rates are even negative. This created room for the South African Reserve Bank and Bank of Namibia to cut the repo rates in total with 2.75% in an effort to support the local economies. This impacted money market returns negatively and we saw a reduction of approximately 2.5%. The same trend was not experienced in long term interest rates (government bonds) where rates were initially highly volatile just to end the year at pre-Covid levels. In the developed world however, low interest rates have boosted share prices, as the alternative to share investments is to receive 0% or negative rates on bonds.

So, what can we expect for 2021? The short answer to this is that the economy will continue to struggle, as the impact of the last few years on the Namibian real economy will not be reversed overnight. To turn the ship around will require a well-coordinated government policy approach to instill investors' confidence coupled with balancing the budget. Both these objectives will require a major effort from government and thus 2021 will be a year where much will depend on the government to take the lead to put the country back on track. As said, this will not be a short recovery and could take the best part of the 2020's to achieve success and put the country on a sustainable growth path.

With regards to the main asset classes our views for 2021 are as follows:

- **Money Market**
  Low inflation expectations and sluggish economic growth will keep short rates low globally and domestically and an uptick, if any, will be small. A heavy burden was placed on Monetary Policy makers to do what they can to mitigate the disastrous impact of the lockdowns on economic activity. Unfortunately, this inevitably impacts the return for money market investors as well. We expect 4% to 5% returns from this asset class in 2021.
- **Fixed Income**
  With global yields low – it is estimated that 25% of total global debt now carries negative yields – domestic yields present a stand-out opportunity for good, inflation beating returns. However, a deterioration of creditworthiness is to be expected. This materialized with the Moody's and Fitch downgrades of SA sovereign debt on the 20th of November. The rand and bond yields hardly moved, but it does require that one should watch counterparty exposures closely for credit risk.
- **Property**
  This asset class is notable for a seemingly complete loss of investor confidence. Initially, about two years ago, it corrected by 21% from an overheated level, following an extended period of outperformance, only to drop another 50% as Covid lockdowns struck. It continues to trade at a dividend yield of 15.5%, the cheapest level it has ever been, even after severe cuts to distributions. Investors continue to grapple with behavioural changes such as online shopping and work-from-home trends, as well as generally weak fundamentals in the sector. This sector could surprise in the near future.
- **Equity**
  Recent years were notable for a wide divergence in the returns that different sectors of the equity market delivered, a trend that was exacerbated by Covid related lockdowns and behavioural changes. Technology and telecommunications companies did extremely well, while other, more traditional businesses grappled with the imperatives of digitization, automation, low growth and penalising valuations. All the while, SA precious metal mining stocks have outshone the rest over the past few years. Recently, markets experienced a strong run in the wake of the US presidential election and hopes for a Covid vaccine. Good outcomes, namely an economic recovery and profit growth, are already priced into share prices. However, there is still room for this asset class to return 10% to 15% p.a. for resilient investors in domestic and offshore equities.

In conclusion, we want to emphasize that investors should review their investments and reassess their investment approach from time to time, especially whether it is still aligned to their investment goals and stage in life.

Diversification of your hard earn money will be important going forward, not only in terms of the main asset classes, but also in terms of geographical exposures. As such we invite you to do our Online Risk Profiling Assessment available on our website in order for us to assist you with this.

Follow this **link** to take the Risk Assessment now.