Outlook for 2022

Despite Covid-19 uncertainties and supply chain disruptions, the global economy is likely to grow by nearly 5% in 2022. This will constitute two years of exceptional growth, following 6% in 2021. Thereafter, global growth is expected to settle down at its long-term average of around 3%. Together with global inflation of around 4%, it results in nominal GDP growth of nearly 10%.

This should make a big difference to improve the fiscal trajectories of many economies. Deficit spending was used extensively to stave off a global depression in 2020 and 2021. For instance, the USA deficit-to-GDP ratio reached 15% in 2020 but is now expected that it will decrease to 5% in the following four years. In most key geographies similar trends will be evident.

Following another weak growth year in 2021 of barely more than 1%, the Namibian economy should fare better in 2022 with a growth rate of 3.6%. This is based on an expected normalisation in most sectors, given very low Covid-19 numbers, and an end to the drag that fiscal consolidation has had in the fiscal year ending March 2022. This means only that spending levels will not contract further after it had to be cut back following the Covid-19 induced deficit spending of 2020.

Inflation will be problematic over the next twelve to eighteen months, driven by supply chain disruptions and a surge in energy prices, including oil that will push up fuel prices further. In the USA consumer inflation is likely to remain above 5% until 2Q22, whereafter it should come down quite sharply to around 3% by year-end. In SA also, it appears set to run above 5% for the next six months and then to drift lower to the mid-point of the target range by year-end. The trend in Namibia will be somewhat different, with inflation drifting higher from the current 3.5% to above 5% by year-end 2022, where it ought to peak.

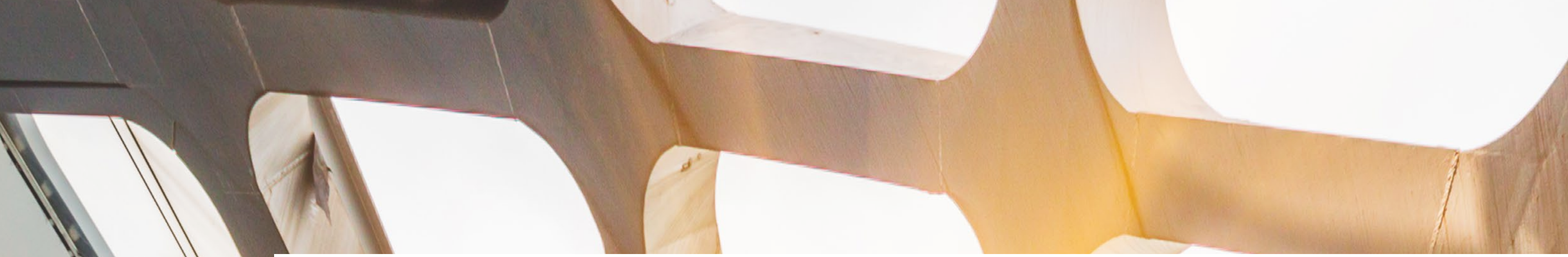
This growth and inflation environment appear to provide an opportunity for policy determined interest rates to be increased somewhat in 2022. The markets now clearly expect that the FED will lift rates from the current target rate of 0.25% to something like 0.5% or 0.75% and that the SARB will follow suit in lifting its repo rate from the current record low of 3.50% to 4.0%. This means that Prime Rate in SA will be 7.50% and in Namibia 8.0% by year-end 2022.

We point this out as a possibility since the SARB appears determined to lift rates in the wake of its mandate review being undertaken in conjunction with the National Treasury. However, it may pose challenges in an economy with 40% unemployment, no demand for credit from the private sector and a weak property market. PSCE in Namibia is growing at 1.7% yoy and in SA at 1.1% yoy with little prospect of accelerating significantly. Furthermore, by this time next year, we are likely to be facing falling inflation and a cooling economy in 2023.

Be that as it may, expectations for returns from the **Money Market** remain around 5% to 6% for the foreseeable future. We are a long way from the nearly double-digit returns that were achieved in the past, which beat inflation handsomely, making the investment decision quite easy and virtually risk-free. Money Market funds returned between 4.6% and 6.3% over the past twelve months.

For a higher prospective return, it means that investors need to consider the **Bond Market**. We reiterate our view expressed last month. Domestic bonds, that is Namibian and South African, carries an attractive yield for these uncertain times. Namibian inflation-linked bonds are also very attractively priced and protects the investor against the danger of future inflation. Therefore, we are fully invested in these. The key factor to watch is counterparty risk, that is fiscal prospects of these Governments. Funding requirements will remain large, keeping yields high. However, we do not foresee a default on domestic debt for the foreseeable future. The Bond Fund returned 14.3% for the 12 months to September.

The outlook for the **Property Market** is not rosy. The fundamentals are poor in terms of vacancies, low rental escalations and increasing cost pressures, with electricity hikes and municipal rates and taxes. It



seemed that investors completely abandoned the sector in the Covid-19 crash of 2020. However, since then, it recovered remarkably, and we think this could carry on for a while. The dividend yield is 6.5% and distributions have started to grow again. The Property Fund delivered 53.6% over the past twelve months.

Domestic Equity also has more runway as earnings have grown significantly. We reiterate that our domestic equity exposure is limited to the Top 40 JSE shares in the form of a capped index. This means that very large cap companies like Naspers are limited to a weight of 10%. As for the rest, it is a well-diversified and, now cheap, portfolio of shares containing, amongst others, banks, insurers, retail, telecoms, healthcare, platinum, gold, diversified miners, Sasol as well as industrial rand hedges like Richemont, British American Tobacco and AB InBev. The JSE is currently trading at a forward PE ratio below 10 times, the cheapest it has been in more than 10 years. The Equity Fund returned 27.7% for the twelve months to September.

We maintain full exposure to **Offshore Equity** via our International Fund. The near-double-digit nominal GDP growth referred to above, means that earnings growth will maintain positive momentum, even though the valuation of these earnings remains quite demanding. Note that the International Fund invests in developed markets only with its largest holdings in the USA. It is therefore not directly exposed to emerging markets such as China. We also think that the currency will depreciate gradually over the next few years by an average of 5% to 6% p.a. as China and commodity prices cool down. The International Fund returned 14.0% over the twelve months to September.

We believe that the best protection against economic and market risks which remain numerous is still diversification via **Multi-Asset Class Funds**. This means that one should maintain exposure to a variety of asset classes in order the achieve growth in wealth. Such a multi-asset exposure can be constructed to range from a cautious to an aggressive stance as, for example, in the Stable- Premier- and Managed Funds. These Funds returned 7.8%, 17.8% and 21.1%, respectively, over the twelve months to September.

Macro risks that we are watching in 2022:

- Fiscal policy in Namibia and RSA. Weak revenue, large deficits, wage pressure and interest bills.
- Concentration risk in the Namibian financial system to Government exposure.
- Tightening of FED policy may bring about a pro-USD environment, which is negative for EM.
- Evergrande-related issues, a cooling Chinese property market, economy and commodity prices.
- Inflation. Oil prices and its impact on fuel and possible second-round effects. Demand destruction.
- A knee-jerk tightening by Central Banks, including SARB and BoN due to cost-push inflation.
- Derailment of the recovery by lockdowns due to Covid-19 flare-ups.
- Fiscal overkill by the USA. Huge spending plans leading to an overheating economy.
- Climate related regulations making doing business even more difficult and energy scarcer.
- Domestic politics and global geopolitical risk.

These risks are called Grey Rhinos. They are the ones that we are aware of, but we do not know which way they will go. The Black Swans are the ones that we cannot foresee at all and come "out of the blue".

To help you navigate your investment risks, complete our **risk assessment** to determine your unique risk profile and recommended investment portfolio.