Capricorn Asset Management
a member of Capricorn Group

Capricorn Group Integrated Annual Report

Capricorn Group, which is listed on the Namibian Stock Exchange with diversified operations and business interests in Namibia and Botswana, released its annual financial results for the year ended 30 June 2022.

2022 was a year of recovery as the Group emerged from the shadow of COVID-19. The Group delivered strong results through the solid performances of all its subsidiaries, with profit after tax increasing by 16.6 percent to N$1.15 billion. The agility and quick decision-making within the Group allowed it to swiftly sense and respond to ever-changing challenges.

For 2022 Capricorn Asset Management's (CAM) assets under management amounted to a total of N$32.1 billion, with a 30.8% market share with 13 unit trusts covering all major asset classes, including cash, bonds, property, equity and international equities. Thus reinforcing CAM as one of the largest asset managers in Namibia as well as being one of the only truly Namibian-based asset managers in the country.

Market Share Unit Trusts

30.80%
(2021: 31.40%)

Value of Assets Under Management

N$32.1 billion
(2021: 31.8 billion)

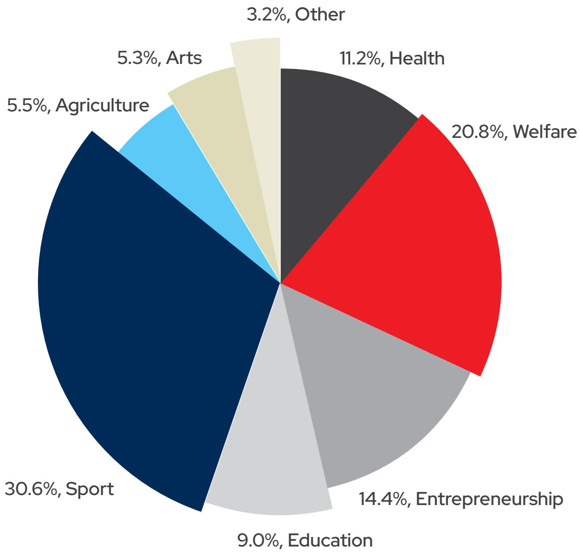
Click the link to view the full Integrated Annual Report.

Introducing our first Social Value Report

During September 2022 Capricorn Group released its first annual Social Value Report.

Capricorn Group is a responsible corporate citizen with strong accountability to its stakeholders and is proud of its contributions to society in pursuit of its purpose of being Connectors of Positive Change. It strives to be open, transparent and accountable in reporting its Corporate Social Responsibility (CSR) programmes and their impact.

For the period ending 30 June 2022, Capricorn Group and its subsidiaries in Namibia and Botswana invested N$15.4 million (an increase of 26.9 percent) in CSR initiatives. This represents 1.3% of the Group's profit after tax which is in line with the Group's CSR policy guideline of 1% of NPAT.



In addition to CAM's contribution to the Capricorn Foundation, we also contributed N$ 210 749 towards CSR initiatives for the 2022 financial year.

Click on the link to view the full Social Value Report for 2022 and follow our journey of being Connectors of Positive Change.

Economic Update

The Key Theme

The prospect of continued tightening by Central Banks (CB's) over the world is dominating the economic landscape. The degree to which this continues will determine several outcomes such as economic growth, commodity prices, inflation, the relative movements of currencies, money market rates, bond yields, and company earnings. Note we do not mean that it is the only determinant.

There are factors at play that are many and varied, not least of which is a deeply concerning flare-up in geopolitical tensions. However, it is safe to say that much of what has happened in financial markets, year-to-date, was the result of the ever-increasing hawkishness of CB's led by the Federal Reserve of the USA (Fed).

Bear(ish) Markets

The current bear market in global fixed income markets is one of the worst in living memory, exacerbated by Quantitative Tightening. USA 10-yr Treasury bond yields are around 4.0% from the 0.5% Covid-driven lows. The 12 mth total return on Treasuries is currently -16%, on German Bunds -19% and on UK Gilts -21%. Other 12 mth total returns are in USD, Global Equities -20% (-25% year-to-date), S&P500 -14%, and in NAD, Domestic Bonds +2.3%, Domestic Property -8.2%, Domestic Equity +3.6%.

Economic Growth

The recession predictor in the USA (yield curve inversion) is firmly in territory that was, in the past, regularly associated with a recession 12 months out. The confidence levels of consumers, businesses and investors are being eroded by several factors such as:

- fiscal contraction (as deficit spending is reduced);
- rising interest rates (globally synchronised tightening GST);
- high inflation with energy costs acting as a tax on consumers;
- continuing supply chain issues and;
- Covid-19 lockdowns in China.

Recent PMI's were relatively weak. RSA growth expectations remain in the 2%-region for the next couple of years, constrained by Eskom.

In Namibia, better than expected growth in 2021 was further revised to +2.7%. In '22 and '23 there should be a moderate improvement to 3.0%+ growth rates, predicated on some degree of "normalisation", given the relaxation in Covid-19 trends. The second quarter GDP growth rate was 5.6% YoY, following 6.5% in 1Q22. The outlook for tourism has brightened considerably and the mining sector shows a strong upswing.

Several of the sectors show positive 4-quarter momentum:

- Agriculture +7%,
- Mining +32%,
- Manufacturing +5%,
- Wholesale & Retail Trade +3%,
- Tourism +7%,
- Communications +2%,
- Finance +8%,
- Real Estate & Business Services +2%,
- Healthcare +6%.
- Indirect Taxes are running at 16%, which augurs well for Government revenue, while fiscal consolidation is evident in the sector of Public Administration & Defence at -2% in real terms.
- The biggest detractor remains Construction at -25% YoY and 4-quarter momentum at -20%.

Commodity Markets

The best chance for inflation to turn down and for the monetary straight jacket to be loosened, lies in the commodity markets.

- Natural gas prices are still at eye-watering levels but have fallen by 30% in September.
- Oil prices are down 33% in USD from its March peak and down 25% in NAD terms.
- Gasoline (fuel) prices in the USA are down 25% from their June peak.
- With China slowing, we expect commodity prices in general to fade over the next 12 to 18 months, e.g. copper is now down 18% YoY.
- The global maize price is down 18% from its April peak. However, SA maize prices are still up 38% YoY.

Inflation

In the USA inflation (CPI) probably peaked at 9.1% in June but remains at uncomfortably high levels in August. However, both CPI (8.3%) and PPI (8.7%) have slipped lower, as well as the PCE deflator from 6.5% to 6.3%. Inflation is likely to dip to 6.5% by December.

In the UK and Europe, the effect of its energy woes are still being felt but falling gas prices should eventually offer relief. Meanwhile, PPI inflation in Germany has reached 46%.

In SA, CPI probably peaked at 7.8% in July and is likely to average 6.8% for 2022 and reach 6.6% by year-end. Bread & Cereals inflation has accelerated to 17.8% YoY and overall Food to 11.3%. Transport inflation has decelerated from 25% to 21% and should continue to receive relief from the lower oil price and decelerate to 13% YoY by year-end.

In Namibia, inflation likely peaked at 7.3% in August, to an average of 6.0% in '22, reaching 6.5% by year-end. Food inflation is still set to reach double digits from 8.8% currently. Like that of SA, Transport inflation has likely peaked at 23% in August and should drift down to 15% YoY by year-end. Overall, Namibian inflation should pick up again in early 2023 as many of the once-off surveys are done in January, such as for rentals, furnishings, health, education, as well as miscellaneous goods and services.

Currency

The USD juggernaut demolished most other currencies so far this year. It appreciated by 15% versus the euro, 20% versus the pound, 21% versus the yen, 11% versus the yuan and 12% versus the rand. We continue to be in a USD-positive global landscape with the US economy outperforming, the Fed tightening and bond yields rising. This is likely to be the case until the Fed relents.

The ZAR has shown surprising strength earlier in the year, boosted by commodity prices. However, since the March peak, the currency has depreciated by 23%. We expected the tailwinds for the ZAR of high commodity prices and BoP surpluses to fade, but the extent of dollar strength was unexpected.

USDZAR at 17.60 (16.50) and 18.00 (17.50) at year-end '22 and '23.

Credit Growth

Demand for credit in Namibia remains anaemic but should pick up somewhat in a "normalising" economic environment. However, it is likely to remain far below par.

Fiscal Policy & Capital Market

Consolidation continues, albeit slower than expected. This means that deficit spending will reduce, being a drag on growth. The Treasuries of RSA and Namibia gave indications that the fiscal trajectories are somewhat better than feared, albeit not significantly. Very steep yield curves continue to represent the concerns of lenders. The creditworthiness of Emerging Markets (EM) are generally worsening, thus sentiment towards EM bonds soured significantly.

Interest Rates

The following conditions for further expected hikes by the Fed are in place:

1. tight labour market;
2. economic and inflation momentum is strong;
3. an "end" to Covid-19;
4. stronger private sector appetite for bank credit;
5. market expectations – Fed futures are pricing a rate of 4.00% by year-end;
6. the consumer inflation trajectory.

The Fed got ahead of the market in setting a rate of 4.38% by year-end. This probably means that the FOMC will hike by 75bp in November and 50bp in December, bringing the Fed Funds rate to 4.5% and the Prime rate to 7.5%. Note that this will mean that the Fed has hiked interest rates from 0.25% to 4.5% within a period of 10 months. Typical of an approaching turning point, the uncertainty about the last hike is high. That is, it might not materialise if the Fed becomes convinced that inflation is declining. The Fed is likely to pause at 4.5% for much of 2023 until early 2024. Then start to lower rates gradually.

Starting in late 2021, the SARB has hiked six times in accelerating increments from the bottom of 3.5% to 6.25%, with the latest hike of +75bp in September. We expect the SARB MPC to hike by another 50bp to 6.75%, choosing to emphasise inflation risks and –expectations that are to the upside, over risks to the economy that is to the downside. The normalisation of rates argument is winning out – 6.75% will be equal to the pre-Covid-19 levels of 2019.

We expect the Bank of Namibia to also lift its rate to 6.75% by year-end. This means a Prime rate of 10.50% resulting from two hikes, one of 75bp in October and 50bp in December. A lot will depend on global rates and domestic inflation developments during 4Q22. Rising interest rates, especially the Fed hiking, usually leads to instability in financial markets.

Scan & follow us on LinkedIn

T: +264 61 299 1950 | E: cam.info@capricorn.com.na | www.cam.com.na | Follow us: in