



## The “wild” side of Economics

### One grey rhino has started its charge.

A **grey rhino** is a risk that is present and identifiable but is different to a **black swan** – a major event that comes out of nowhere. The one that we are referring to here is the tightening cycle of the Fed. Its various governors have started to talk about a much faster hiking of rates from the current 0.5% in a concerted effort to fight inflation, which reached 8.5% yoy (year-on-year) in the USA. Therefore, although it was present and identifiable, the degree to which rates will rise, is more than previously expected.

Another wildlife analogy refers to a tug-of-war between **hawks** and **doves** on the Monetary Policy Committees (MPC's) of Central Banks (CB's). The hawks are those that prefer sharply higher interest rates to fight inflation, while doves prefer not-so-high interest rates to protect the economic upswing from faltering. Currently the scales are tilted towards the hawks, although the outlook for economic growth has soured. The IMF (International Monetary Fund) cut its expectation for global growth in 2022 from 4.9% to 3.6%, while it hiked its global inflation outlook to 7.4% from 3.8%.

This had a negative effect on global stock markets, bond yields and the exchange rate. Global equities as measured by the MSCI World is now

down 13% ytd (year-to-date). The USA 10-year bond yield is closing in on 3% from 1.5% at the beginning of the year, compared to 0.5% during the Covid-19 driven lows of 2020. The Namibian dollar quickly depreciated by about 8% to 15.70 per US dollar at the time of writing to be back around the same level where it started the year. The US dollar appreciated by about 6% versus the euro, ytd.

The faster tightening by the Fed is serving to raise our conviction regarding expectations that we expressed in our previous notes, largely having to do with the outlook for global and domestic interest rates. CB's are ever more determined to normalise interest rates, with a view to end the period of abnormally low rates. We foresee a BON (Bank of Namibia) rate of 4.75% and a prime rate of 8.50% by August. Further increases to a possible 5.25% by year end will depend on how the economic scenario unfolds in the second half of this year and into 2023.

For 2022 and 2023, the Namibian economy should grow between 3% and 4% in real terms if current trends in Covid-19 hold – in line with its long term pre-Covid-19 average of 3.8% pa. Recent revisions to 2.4% indicate that the economy fared better than the expected 1% in 2021. The key to interest rates will be the inflation trajectory. Driven by fuel and food, we foresee that Namibian inflation will peak at around 6.5% in the third quarter and then drift down to the mid-point of the target range

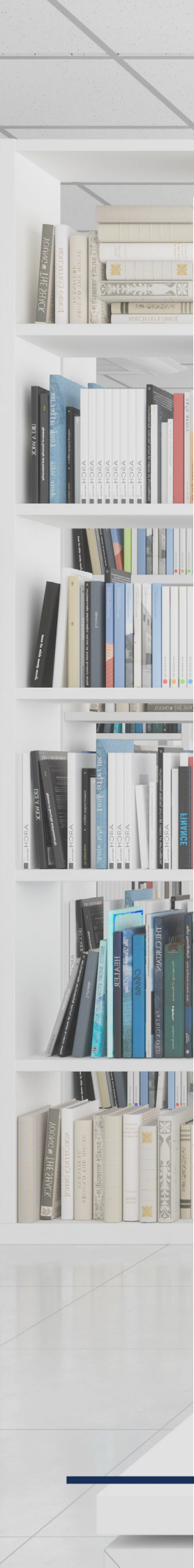
of 4.5% by late 2023. We reiterate that we believe the BON should be patient if it is desirous to achieve a positive real rate over time. Being too aggressive may choke off the, hoped for, recovery.

### Money Market

We expect improving yields from the money market as interest rates rise, albeit that some of the expected increases are already reflected in the market. Recalling that the 3-month rates dropped from the 7%+ range to the 3%+ range in the initial stages of the Covid-19 crisis along with aggressive interest rate cuts by CB's to stave off the worst of the economic fallout. These rates have now recovered to just below 5%, while the 12-month rates are around 6.5%. The money market remains a safe and stable option amidst the current uncertainty and volatility, while investors that need to maintain exposure to the more risky asset classes, to achieve long term real returns, will continue to face a bumpy ride.

### Global & Domestic Bonds

Global bonds were particularly hard hit by the prospect of higher inflation and higher interest rates. The price of the US 10 yr bond, given the yield movements mentioned above, is down 11% ytd in USD. In contrast, domestic bonds have held up quite well. The RSA Government 10 yr bond total return is flat ytd and up 7% yoy. We believe the domestic market has benefited from switches away from Russia in the EM space. Over the past



12 months the yield has drifted up steadily from below 9% at times, to the current 10% (12% in Namibia), which represents value, in our view. Large fiscal deficits and the prospect of rising inflation are keeping yields elevated.

Yet another wildlife analogy is that of the **bull** (positive or up) and the **bear** (negative or down). A proper bull (bear) move is usually seen as a +20% (-20%) change from a recent turning point. A positive (negative) directional move is simply called bullish (bearish), whereas a 10% change is usually viewed as a correction. These usually emerge in market commentary to label certain order of magnitude changes. Therefore, apart from an unequivocally huge bull markets in oil, energy and commodities, many of the recent market fluctuations still fall somewhere between a correction and a bull or bear move.

### Listed Property

The total return from listed property is currently 13.6% yoy and -3.3% ytd. Compared to the deep contractions in distributions last year, dividends are up by 56% currently. The dividend yield has recovered to 8.2%, better than its long-term average of 7.7%. Capital values have virtually doubled since the Covid-19 lows, following a huge bear market from the peak reached at the end of 2017. Looking forward, investors in this asset class can expect an attractive yield that should grow over time. Last month we estimated that the sector has a 20% exposure to Eastern Europe, including Poland and Hungary that borders on Ukraine.

### Global Equity

The global equity market experienced a significant down-leg over the past month to be down -13% ytd (-3% yoy) in USD and -14% ytd (+7% yoy) in NAD terms. A confluence of factors have conspired to poke the bear.

- First, a deteriorating growth outlook.
- Second, a crusade by China to restrict and control.
- Third, valuations that needed to come back to earth – the forward PE ratio is down from 22 to 17 times – more in line with its long term average of 16.
- Fourth, tightening monetary policy in response to the global inflation shock.

Accumulation – a steady buying strategy over time – is advisable, as opposed to attempts to time the bottom based on headlines. We do not expect a bull market like the one that followed the Covid-19 crash.

### Domestic Equities

The total return of domestic equities (the JSE), amounts to -5% ytd, but +9% yoy. The CAM Equity benchmark is up 12% yoy. The JSE was a relative winner in the recent global scenario due to the bull market in commodity prices and capital switching away from Russia, thanks to extreme sanctions, and from China, thanks to its adversarial regulatory actions. The forward PE ratio is at 9, compared to its long-term average of 11.5 times and the forward dividend yield is at 5.5%, compared to its long-term average of 4.5%. This means that the valuations remain attractive in our view.

### Consolidated Tax Statements

The Consolidated Income Tax Statements was distributed during April 2022 for the period 01 March 2021 to 28 February 2022.

Sections 34A to 34E in the Namibian Income Tax Act deals with Withholding tax (WHT) on Interest.

These sections stipulates that 10% WHT must be withheld from the Interest paid by a Namibian Unit Trust to a Namibia Natural person. It is therefore required that the Unit Trust issue a proof of any tax withheld to every investor.

You will note on the Consolidated Income Tax Statement there is a line “**Local interest: Exempt for Individuals**”. This line refers to Section 34A which allows for interest earned which is non-taxable, e.g. Interest earned from a Treasury Bill issued by the Government of Namibia.

Note that no WHT is deducted on interest received by a Namibian Company (as defined in the Act). The Company must include this interest received in the taxable income of the Company.

### **What to do with your Consolidated Income Tax Statement**

A copy of the Consolidated Income Tax Statement should be attached to your Income Tax Return.

For all our investors that are Individual Tax payers (except Namibian Companies), the WHT is already deducted. This is a Final Tax and no further tax need to be paid on the interest earned. Thus, you need to ensure that your Income Tax Return is completed correctly.

### **How to indicate this income on your Income Tax Return**

The current Income Tax Return for individuals does not have schedules and lines to complete for all possible events.

With regards to the interest and dividends received on Namibian Unit Trusts, the Income Tax Return could be completed as follows:

- **Local Dividends:**  
Add this to Schedule 21: Dividends (Not Subject to Taxation) in the line “**Dividends received from Namibian sources**”.
- **Local interest & Local interest: Exempt for Individuals:**  
Add the combined value in Schedule 20: Namibian Income Not subject to Taxation in the line “**Other Income (excluding dividends)**”.

### **Foreign Interest & Dividends**

Capricorn Asset Management (CAM) advises that you consult with your Tax Advisor on the correct treatment of foreign income received from 3rd party manager funds available on our investment platform.

CAM does not deduct any WHT on the foreign interest or foreign dividends. As the foreign income is from a South African source, the Double Taxation Agreement (DTA) between South Africa and Namibia should be taken into consideration.

### **NRST on Dividends**

The Namibia Non-Resident Shareholder Tax (NRST) is a withholding tax that is deducted from the dividends earned by Unit Holders whom are not Namibia Tax Residents.

The % WHT that is deducted depends on Tax Residency of the Unit Holder and the specific DTA Namibia has with that country.

### **Where to download your Consolidated Tax Statement**

You would have received your tax statement on the 14th of April 2022, sent to your nominated email address.

Alternatively, it is available for download on Capricorn Online.



If you are still not registered for Capricorn Online, you can simply complete the **Online Registration form** and email it to us at [cam.service@capricorn.com.na](mailto:cam.service@capricorn.com.na)