# Newsletter | February 2020

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

## The similarities between successful dieting and investing

This time of the year many of us may still be committed to achieve our New Year's resolutions, such as losing the few kilograms gained during the festive season. It however raises the question what is actually a good diet?

Research has shown that there is not necessarily a single best diet to follow, but what is more important is to pick a diet and stick to it. The same argument goes for successful investing.

Similar to a diet, it is very important to choose a simple approach to investing that correlates with your personality, appetite for risk and unique circumstances in order to increase your chances to stick to it and achieve investment success. Just as it does not make sense to try a diet that is unrealistic, the same goes for one's investment strategy.

Therefore, to be a successful investor, considering your unique circumstances, it is critical to choose an investment strategy that you will be able to keep to through thick and thin.

It does not help to continuously switch between different diets, as switching to the latest fad usually result in not losing any weight. The same is true for investments. By second guessing your investment strategy and overreacting to the latest market movements or the next big thing as popularized by the media, is bound to make your investment strategy unsuccessful.

In conclusion, it is thus important to choose a simple investment approach that will work for you and which will increase your chances to follow it in a disciplined manner and thus achieving investment success.

Make 2020 your investment year. Make the sensible choice to create your financial independence.

If you are not sure or feel uncomfortable with your current investment strategy contact our sales team to assist:

- Leonie de Klerk
- Joline Diergaardt
- Uendjisuvera Mieze

The team can be reached at cam.service@capricorn.com.na or 061 - 299 1950.

Alternatively speak to your wealth manager, financial advisor or visit our offices to review your investment portfolio and ensure you are investing with 20/20 foresight.

## South Africa Budget 2020

### "...and the second verse is Dumela..."

Finance Minister (MoF) Tito Mboweni delivered what is arguably the most important Budget Speech in South Africa's recent history. We said exactly the same thing last year. Hence the second verse quote, meaning that the same song is being sung.

Last year we expressed the hope that the A-Team that took the reins would be able to implement fundamental improvements. However, hope springs eternal, but was disappointed in this instance.

The context in which the Budget was delivered is extremely challenging. Recession-like macroeconomic conditions persist. This means that revenue will continue to grow slowly. In the past year it slowed to 5.5% (9.2% was expected) and is budgeted to grow by 4% this fiscal year. The outlook of the Minister that it will grow by 6% plus going forward might be too optimistic.

We expected some tax hikes, but in the end some relief was given on the personal income tax side, albeit marginal.

Spending was projected to grow by 9.7%, but actually expanded by 12.2%. This damages the credibility of fiscal policy. The budgeted increases are 6.0%, 4.4% and 4.9% for the next three years. To achieve this degree of control requires that growth in the wage bill be contained to 1.5%, a herculean task. Then it has to grow by only 4.5% and 4.4% over the next two years – basically in line with inflation. The MoF promised savings of R261bn on the wage bill and program spending. The wage bill constitutes about a third of total spending.

SOE's remain a threat to creditworthiness. Contingent liabilities and guarantees at R1.3tn now amount to 25% of GDP. Eskom (R296bn) is by no means alone in this. The effort to enable alternative sources of electricity resulted in guarantees on behalf of independent power producers of R163bn, whilst the Road Accident Fund contingent liability is on its way to R500bn. Total debt plus contingent liabilities now amounts to 90% of GDP.

The deficit this year will be the largest on record – a gargantuan R370bn. The deficit-to-GDP ratio will pop out to 6.8% - the highest its been since the birth of the Rainbow Nation. In 1993/94 it was 10% plus, but in the following decade it actually turned into a surplus. However, the healthy 3% rule-of-thumb level has not been seen since 2010.

Against this background, the RSA is already being rated as "BB" by the markets, that is non-investment grade, also known as junk status. This is evident from the levels of the bond yields and credit default swaps when compared to similarly rated counties. Furthermore, the currency has fallen by more than 50% since 2010. We would say that constitutes a de-rating. Moody's now merely has to play catch-up and publish its report-card. Indications are that they will do so by November 2020.

One thing in SA's favour is its low level of foreign debt. It constitutes 10% of total debt and 6% of GDP. This means that debt is largely denominated in local currency. Therefore, despite the litany of issues, problems and unhealthy ratios, we do not foresee a debt default by the South African state. Deteriorating creditworthiness means that the interest rate charged by lenders (bond investors) will remain high. This provides an attractive yield in a yield-scarce world – compare 8.7% in SA to the USA at 1.3%, Japan at 0% and Germany at -0.5%, all 10-year bond yields.

Fiscal policy cannot provide much by way of stimulation to the economy. Therefore, we are of the view that interest rates will be lowered further by the SARB. The economy is in a predicament and inflation ought not to be a problem. This means that the prime rate in Namibia will also be lowered – it could be as low as 9.25% by the end of 2021.

A snippet of positive news for Namibia from the SA Budget is that the payment to the SACU pool is estimated to increase substantially. This will provide welcome breathing room in our fiscal space.

## Trustee and Custodian Change Notice

We are currently in the process to move our Capricorn Unit Trust trustee and custodianship from Standard Bank Namibia Nominees to Rand Merchant Bank Trustee and Custodial Services. The change is still subject to approval from the Registrar and we have initiated this process.

There will be no impact on you as a client because of the change.

Should you have any queries or concerns regarding the change in custodianship, you may submit a written communication, addressed to our Chief Operating Officer, delivered to our office or sent to PO Box 284, Windhoek, Namibia before 30 April 2020.

We look forward to building a new and successful relationship with RMB and will keep you informed of the progress in this regard.