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

Health is Wealth

Over the past year it has become evident that not only is your financial well-being important but that one tend to value health even more.

We therefore want to encourage you to register for Capricorn Online which will enable you to transact on and view your investment portfolio from the comfort and safety of your home rather than having to visit our offices or your nearest Bank Windhoek branch.

Use Capricorn Online to view statements, make deposits and withdrawals. You can even open new investments or switch between investments.

Simply complete the **Capricorn Online registration form** and email it to cam.service@capricorn.com.na

Upon successful application, our sales team will contact you with the next steps to complete the registration process.

Are your investment goals still on track?

As we take on the new year, we tend to reflect on the past year and what lessons we have learned and new opportunities that may arise.

Over the past year we have seen multiple rate cuts and volatility in the market that has had a rather big effect on all types of investments. However in times of low returns it is important to look at opportunities for growth, but also take into account that your level of risk meets your needs.

In order to achieve your investment goals it is good to understand your investment risk profile and take the appropriate amount of risk. If you do not take the appropriate amount of risk, you risk not achieving your investment goals at all.

Your unique risk tolerance and risk capacity may change overtime due to life events and life stage cycles. This may in turn have an impact on your current portfolio recommendation and may need to be reviewed and reassessed.

So let us be your sensible partner to ensure you know your risk profile and take the right risks to achieve your investment success this coming year.

Take the risk assessment now by following this **link**.

2021 Economic Outlook

The outlook for 2021 is considerably brighter, compared to the expected outcomes of a traumatic 2020.

Following a contraction like that of last year, a strong bounce is likely as pent-up demand is released and a higher degree of mobility is achieved, albeit not at pre-Covid levels. However, recent developments regarding the pandemic have muddied the waters considerably. So-called new waves, leading to stricter lockdowns in some geographies, together will logistical challenges with respect to vaccines, lead one to take note that the management of the pandemic will be challenged for quite a while yet.

Nevertheless, global economic growth is expected to be strong this year in the order of 4%+. This represents a downward revision of previous expectations of 5% or more. There will also be wide dispersion in different regions. The USA might achieve even stronger growth, driven by low interest rates, fiscal stimulation and a recovery of confidence, whereas Brexit- and newly Covid affected UK and Europe, will probably be laggards. This is a positive environment for growth in SA and Namibia, albeit muted. We expect growth rates of 2.5% to 3.5% domestically. Note that this in real terms. Confidence is still low and uncertainty remains elevated.

China, which is the most important economy with respect to commodities, looks set to grow by 8%+. We have already seen a sharp reaction in commodity markets. In year-on-year terms, copper is up 35%, while other metals have also rebounded considerably. Food and agricultural prices have also risen sharply. For instance, the global maize price is higher by 29%. Precious metals like gold (+19%), silver (+41.2%) and platinum (+9%) have also been strong. Oil is still down -7% year-on-year, but has risen sharply form the lockdown induced bear market of early 2020. These commodity price moves have various impacts on domestic growth (positive), inflation (mixed to up) and the currency (stronger).

Overall, we expect a moderate increase in inflation. In EM's it is likely to be around 5%, but in BRIC closer to 3%. In DM's inflation could double from 0.8% in 2020 to 1.6%, which is still below the 2% threshold for monetary policy to react. The exception is the USA where inflation looks set to rise to an average of 2.8%.

In SA we expect inflation to average 4.4%, 4.8% and 4.5% over the next three years. In 2Q21 it could peak at around 5% before falling back to around the mid-point of the SARB target range of 4.5%. In Namibia, we expect inflation to be more muted, averaging 2.9%, 4.3% and 4.1% over the next three years.

We expect most Central Banks to be on hold this year. This means that the FED, ECB and the BOJ will maintain rates at or around zero percent. The FED has been painstakingly preparing the market that they will not react to US inflation above 2%, because they want to achieve an average rate of 2% over an extended period. Having been at or below 2% for several years now, this means that one needs inflation above 2% for a few years.

Similarly, we do not expect the SARB to react if inflation spikes upward this year, because the Monetary Policy Committee expects it to, afterwards, remain around the mid-point of 4.5%. The latter has become the explicit target of the SARB, with much less emphasis on the 3% to 6% target range. This means that policy rates in Namibia will also be unchanged for the year at 3.75% and the prime rate at 7.50%.

We are concerned about the stance of Fiscal Policy over the next few years, both in SA and Namibia. We are clearly on a lockdown induced, unsustainable fiscal trajectory in both countries. However, relatively speaking, Namibia looks better than SA. Budget deficits of 10% to 15% of GDP is expected in SA and 7% to 10% in Namibia, with the better numbers in the outer years. We expect debt to GDP ratios of 100% for SA in three years' time, while that of Namibia ought to be held to 80%.

Following the "Covid Crisis Year", economic recovery is now critical for the revival of Government revenue to avert a debt trap where the interest bill spirals out of control. We do not expect a default on domestic debt, only that lenders to Government, i.e. investors in Government bonds, will continue to demand adequate compensation for perceived fiscal risk. This comes in the form of sustained higher real yields.