
## The D's of a post-Covid-19 world

Have we seen the bottom? It appears so. The NSA (National Statistics Agency) has released a set of six sectoral indices with data to May 2020 for the following sectors: Beverages, Building Industry, Electricity, Livestock, Tourism and Transport. They all still show that, compared to the same time last year, economic activity is down massively. However, compared to preceding months, except for Tourism, activity has picked up. This means that we have probably reached the bottom of the current downswing in the second quarter of 2020. The GDP number for the quarter is likely to be of the order of -35%.

What is clear, though, is that the road back to normality, if pre-Covid-19 levels are to be regarded as such, will be long and slow. At the time of writing we await the publication of second quarter GDP numbers for several developed economies. These are likely to be of the order of -20% to -40% as it encapsulates the period of the hard stop to economic activity due to the lockdowns and should constitute the bottom. This means that the next few quarters should be an improvement, but, on average, global GDP is set to contract by 5% for the year. Growth should rebound by a similar amount in 2021 as economies open for business.

So, what about the future? What would it look like? We think the new normal could be described by eight major trends that we call the D's of the post-Covid-19 world:

- DISTANCING: It is a word that became widely used during the pandemic. However, it will also apply between countries, in personal relationships, schools, universities, workplaces, between ethnicities, and between rich and poor. This theme will result, amongst others, in global bloc forming of the Anglo-Saxon bloc (dominated by the USA) vs. the Eastern bloc (dominated by China) vs. the uncomfortable straddlers of Europe and Africa in the middle. Namibia will be such a straddler of the blocs with interests on both sides.
- DISORDER: The fight will continue for control of multilateral institutions such as the IMF, WB, WHO, UN, and WTO. This results in the disintegration of the rules-based order as the USA puts self-interest above international interests. More regional conflict and mass protests are likely. Namibian socio-political tensions are set to rise.
- DEMOGRAPHICS: By this we mean shifting inter-generational spending patterns that will prioritise connectivity and content, mass retirement of the Baby Boomers, aging populations, smaller workforces and rising dependency rates. Namibia's unemployment rate will worsen and remain a serious problem, especially amongst the aspirational youth. One could say that Namibia enjoys favourable demographics in its young population, but they need to be mobilised into gainful employment as it were.
- DATA: It will be the new oil, i.e. an important strategic asset. This trend also includes digitalisation and automation. It encapsulates virtual reality, block-chain technology and artificial intelligence, as well as the tension between the use of data for security vs. its encroachment on privacy via tracking and tracing. Namibia is still behind this digital curve, which means there is huge opportunity for enhanced efficiencies.
- DISRUPTION: Traditional industries and behaviours will continue to be disrupted - such as payments, financial services, client interaction, education, energy, auto's and transport, property, shopping habits and banking models (low interest margins). This theme also includes the increasing frequency of natural disasters/diseases, which is now well known. Global climate imperatives may disrupt national agendas. Namibian industries and sectors will not escape disruption, but this also means there will be opportunities to do things differently and perhaps more profitably and inclusively.
- DEBT: An immense global pile of debt is owed by households, corporates and sovereigns, which leads to a general deterioration of creditworthiness. This also means that the world cannot

afford higher interest rates, because it will lead to more defaults. The huge amount of borrowing by sovereigns leads to ever increasing government involvement in economies as 10 % + deficits and 100 % + debt ratios become the norm. In Namibia, this debt theme is also playing out. We do not foresee a default on the horizon, but urgent reform is needed.

- DEFLATION: Here we mean low growth rates and low to no inflation and not necessarily falling price levels in the strict sense of the word deflation. Production and consumption of "more and more" will no longer be the economic model. This results in little to no growth in per capita incomes leading to increasing inequality. We do not foresee outright deflation in Namibia, but a definite growth challenge.
- DISCOUNT RATE: Interest rates will likely remain at historically low levels, which means the opportunity cost of foregoing interest will be low. This presents a challenge to conventional investment decision making, which centers around the discount rate, as central banks pursue unconventional policy. This means that the "cost" is low to explore alternative investments such as private equity and direct property as well as non-yielding assets such as commodities and digital currencies. It also means that high yielding assets will remain in demand.

In this challenging environment, it is clear that one should search for the most sensible investment strategy with the aid of a wealth creation partner that has stood the test of time. For instance, the "Distancing" theme means one should take a view of which geographies and/or currencies are likely to outperform. As nations turn inward, those with large domestic markets, natural resources, respect for property rights and flexible economies are likely to do well. Add to this leadership under the "Data" theme, which means, amongst other things, digital transformation, as well as adaptability to the "Disruption" theme and one should be able to form such a view.

The "Distancing" theme with its implied bloc-forming provides a framework of thinking about the USA dollar debate. It is clearly in the interest of the opposing bloc to talk the dollar out of its reserve currency status as the underdog takes some market share from the dollar. However, so much of global trade, global financial transactions and central bank reserves are done and held in dollars, that it is hard to see it lose its pre-eminence. That is not to say that it will be stable and ever appreciating. It is subject to large cyclical swings just like any other currency.

The "Debt", "Deflation" and "Discount Rate" themes mean that investors can lend to certain Governments at attractive yields. With global yields low – it is estimated that 25 % of total global debt now carries negative yields – domestic yields present a stand-out opportunity for good, inflation beating returns. However, it also means that one should watch one's counterparty exposures closely for credit risk.

In a similar manner, investors should consider each macro-theme and its investment implications, whilst bearing in mind that they also overlap and are mutually reinforcing. It is by no means an exhaustive list, nor is it the only approach to be explored, but, we believe, it is a good place to start.

## Trustee and Custodian Change Update

As per approval from the Registrar, the Capricorn Unit Trust trustee and custodianship change to Rand Merchant Bank Trustee and Custodial Services has been successfully implemented.

We look forward to building a new and successful relationship with RMB.