



Economic Update

The impact the Covid-19 virus had on the markets has been astonishing and March 2020 may one day be referred to as the month the world came to a halt.

What makes this event so different from previous market meltdowns is that it hit the financial markets and the man on street almost simultaneously. For asset managers its been a tough month as we are not only facing what happens in the markets but also whats happening with our own lives.

A killer virus has many times before been the stuff of fiction and has been a concern for scientists but most of us have never thought it would really become a reality. Hence people were not prepared for what has happened and we still cannot believe what is happening with us personally, with the markets and with our own national economies. The so-called black swan has been spotted not only once but suddenly all over the world and even in Namibia.

The only way to try and contain it, is to slow down the new case build-up. Therefore, social distancing policies have been instituted in most countries, which culminated in lockdowns and bans on international travel. The full economic carnage will only become known over time. However, recessions are certain to unfold.

Travel and tourism stopped. Mines and factories are coming to a virtual stand-still. Construction activities cannot continue, the demand for electricity are contracting sharply and transport services are severely curtailed. The wholesale and retail industries were temporarily boosted by panic buying but will eventually be hammered by the absence of feet in malls. The demand for credit is likely to collapse and a run to safety has once again surfaced its brutal head.

Financial markets virtually collapsed. An estimated U\$15tn has been wiped off global stock markets – developed markets are down about 25% to 30% and developing markets 40% to 50%. This sell-off is now compared to previous meltdowns – even the Great Depression of the 1930's. Equity markets are discounting a collapse in earnings of unprecedented proportions.

Bond yields spiked. Anything that could be typified as risky were dumped. This ranged from corporate bonds to Emerging Markets. South African and Namibian bond yields were no exception. From late January at 8.2%, the 10-year Government bond yield surged to 12.4% before coming back to 11.7%.

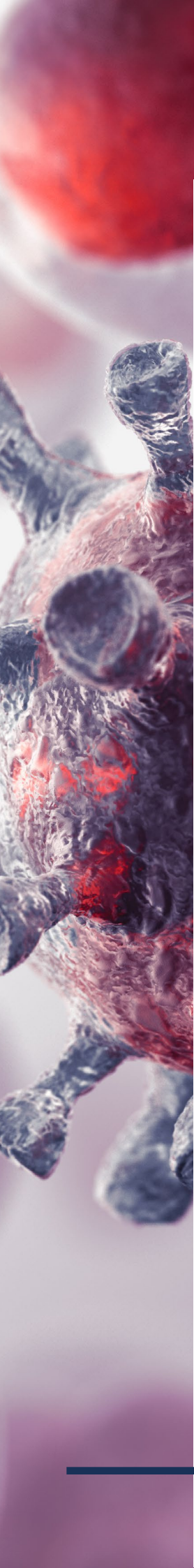
The property market also had an extreme sell-off and is now priced for a 50% contraction in distributions receivable by investors. The asset class has now lost two thirds of its value from its peak two years ago, 50% of which can be regarded as

Covid-19 related.

The policy response was unprecedented in both its scope and speed. Led by the Federal Reserve Bank in the US, central banks have cut interest rates sharply. The Fed cut its rate to virtually zero from 1.75%, having maintained a rate of 2.5% as late as the middle of last year. It also announced a virtually unlimited Quantitative Easing programme. This means that defaults by investment grade entities are unlikely. Namibia and South Africa followed suit in cutting lending rates by 1% in March and is likely to continue this trend. We foresee that short term interest rates could be lower by a further 1% by the end of this year. This means that the Namibian Prime Rate is likely to be 8%.

Furthermore, it has become clear very quickly that fiscal policy must step up to not only stabilise final demand but also to directly support the most exposed commercial sectors. The US have, in quick time, approved a stimulus bill of U\$2tn which presents 10% of their GDP which has become the rule of thumb for governments of the amount that is needed in order to ward off the worst for now.

On a local front we expect the Namibian government also to announce a stimulus package to support our local economy soon. The details of which will only become available when announced but we expect it will cover a wide range of fiscal stimulus and direct support to



business and the most vulnerable in society, small businesses and the poor.

At the time of writing, South African long term (10 years plus) bond yields have risen sharply with up to 2% and the announcement of Moody's that South Africa has been downgraded by them, although widely expected, to non-investment grade made it worse. The rand also suffered a major blow and weakened by more than N\$2 against the US dollar, euro and British pound. Foreign investors have truly decided to leave local shores and run to safety. Our forecasts shows that inflation will remain subdued in the foreseeable future, which means that current bond yields represents a very attractive real return.

The latest crisis can be described as a liquidity crisis rather than a credit crisis, as most commercial entities which were profitable and high investment grade saw liquidity dry up overnight to fund their normal business operations. The central and commercial banks have a major role to play in months to come to help overcome this liquidity crunch.

Our guidance to investors at this point in time is as follows:

- Those who have most of their funds in cash and other interest bearing portfolios are to maintain their conservative stance until more certainty prevails.
- Those investors already invested in a diversified portfolio exposed to non-cash asset classes, we recommend to not sell out of the markets at this stage but rather to hold on and wait for markets to increase again. By selling now investors will, first of all, realise an enormous loss and secondly in all likelihood, miss the growth that is bound to come at some stage.

Having said that there are tremendous opportunities now to start considering entering the bond and equity markets. This is obviously

subject to your personal risk profile informed by age, attitude to risk, relative size of your wealth and liquidity needs. Now may also be an opportune time to reconsider or simply re-balance your long term, strategic portfolio composition. Both these latter strategies should be carefully considered and we recommend getting expert advice first.

To conclude, make sure your investment portfolio is structured in line with your investment goals and your risk profile, that you have sufficient liquidity, stay calm and stay safe.

Manage your investment portfolio from the safety of your home

At CAM we strongly promote social distancing in an attempt to curb the spread of the virus, however we also understand the need to easily view and have access to your investment portfolio.

We therefore want to enable you to view and transact on your investment portfolio from the comfort and safety of your home by using our digital platform, Capricorn Online.

Capricorn Online has the following features:

- View fund balances
- View & download monthly statements
- View & download tax statements
- Submit deposit or withdrawal instructions
- Do switches between funds
- Open a new unit trust fund
- Manage recurring deposits & withdrawals
- Change personal details (limited)
- View nominated banking details

To register for Capricorn Online, simply:

- Complete the Capricorn Online registration form and submit it to cam.service@capricorn.com.na
- Upon successful registration you will receive a User Account Notification email

- Follow the easy steps as per the email received to activate your user account and create your own unique password
- Explore Capricorn Online

Alternatively, you can also link your investment portfolio to your Bank Windhoek Mobile App or Internet Banking. Simply complete the Bank Windhoek Electronic Channels registration form and submit it to us via email.

The forms are available on our website under the [Online Services](#) section.

Should you have any questions or need assistance, our support team can be reached telephonically at 061 - 299 1950 or via email at cam.service@capricorn.com.na

Offices Closed for Client Visits

The health and safety of our clients, our employees and their families is important. In light of this, and in support of the Namibian Government lockdown announcement, our head office, 4th Floor Capricorn House, 119 Independence Avenue, Windhoek has been closed for physical client visits with effect **Monday, 30 March 2020 till further notice.**

Please be rest assured that your investments entrusted to us will continue to be managed with our utmost dedication.

Our dedicated staff will be readily available for any queries or advice. Please make use of the following service channels:

- Our sales team is accessible at 061 - 299 1950 or via email at cam.service@capricorn.com.na for any advice related queries or transaction instructions.
- Our digital service platforms namely Capricorn Online, Bank Windhoek Mobile App or Internet Banking to transact on your investment portfolio.
- Bank Windhoek Branches

The following services will be suspended temporarily during this time for your own protection:

- Client detail changes, as this requires personal verification before it can be actioned.

All client announcements as well as the latest market information is available on our website under the [News Platform](#) section.

Make the sensible choice and practice social distancing.