Economic Outlook

Over the past six quarters there has been a global macroeconomic slowdown, so much so that it turned into what is rightly termed a growth scare. As 2020 approaches we start looking forward with increasing hope to an upswing. However, we need to ask whether such hope is warranted and, also, whether it will assist Namibia in getting out of its slump.

The main factors and trends that we see, globally and domestically, that will determine which way things will turn out are the following.

Growth

Global growth is likely to bottom in the 4th quarter of 2019 and 1st quarter of 2020. Consumer confidence has held up quite well in most regions and unemployment remains low. Business confidence have taken the brunt of geopolitical tensions, but there has been a thawing in the trade war and the Brexit process has taken a somewhat more sensible turn. Central Banks, emboldened by the Fed about face, have been lowering interest rates in a concerted fashion. The latest move is from China where the repo rate is being lowered.

Against this backdrop we foresee that the Namibian economy should achieve marginally positive growth in 2020. However, we will be fortunate if it is much above 1%, following on a 2% contraction in 2019.

Similarly, in SA, the outlook is not great. Economic growth is likely to be marginally positive this year and next, but not enough to change the overall sense that recessionary conditions will persist.

Inflation

Global inflation pressures remain low. It seems that the technological revolution, lack of bargaining power, changing spending patterns and a long-term decline in food inflation are the main reasons for the absence of inflationary fears. Policy makers and investors are more concerned about the possibility of deflation (constantly falling prices) than inflation (constantly rising prices).

Monetary easing is likely to continue. Interest rates are being lowered everywhere one cares to look. The key shift in 2019 in this arena has been the move from hiking to cutting rates by the Fed. However, there is a new shift by the Fed from cutting to holding rates.

We reiterate what we said in a previous note: “The USA economy is still looking quite strong. Unemployment is at an all-time low, which means that, from a domestic perspective, the USA economy is not in need of policy stimulation. There is indeed a debate amongst the members of the Federal Reserve on this issue. Some members are against further interest rates cuts, while some are in favour of further easing as ‘insurance’ against the knock-on effects that will emanate from the weakness in global trade and falling manufacturing confidence.”

The Namibian economy is weak, inflation risk is low and no, we do not expect Namibia to exit the slump convincingly. We therefore expect the Bank of Namibia to lower rates further through the course of 2020.

In Namibia, inflation has also been very subdued. In fact, it has dropped to 3% in October. However, so far it has been a cyclical move down. It remains to be seen whether it constitutes a permanent, structural shift lower. We estimate that the inflation rate is close to its bottom for the cycle and will gradually rise in 2020 from around 3% to just above 4%. In 2021 it is likely to remain in the 4% to 5% range.

Fiscal Policy

Pressures on the Fiscus will remain heavy. October’s interim Budgets, both in South Africa and Namibia, in our view, have not revealed the full scale of fiscal slippage yet. Revenues will be severely constrained by general economic weakness while there will be no shortage of demands on the Fiscus to spend more. In Namibia, the deficit is likely to be 5.5% of GDP rather than the budgeted 4.3% and in South Africa 6.0% rather than 4.5%. The result is a continuing deterioration of creditworthiness as debt levels soar amidst weak growth. All the while

SOE's remain a drain on the fiscus. However, we do not foresee defaults by either Namibia or South Africa anytime soon.

Market implications

Money market rates will drift lower which means expected returns of 6.0%-7.0% (albeit virtually risk free). Reflecting the deterioration of creditworthiness, bond yields will probably remain in the 8%-9% range which is a reasonable running yield (with risk of loss if yields move sustainably higher than this). Listed property remains a value proposition with yields exceeding that of 10yr bonds (with risk of loss if fundamentals deteriorate further).

Domestic equities are also priced attractively compared to history and relative to bonds, which means low double-digit returns are quite possible as earnings grow.

Offshore fixed income offers very low running yields which provides support for equity markets. The latter ought to also deliver low double digit returns as firms get on with business despite the headlines. Note that the S&P500 is up 20% year to date. In DM's dividend yields exceed bond yields.

This is an environment where, in our view, investors should not expect to "shoot the lights out", but should follow what is for them a sensible, lower risk approach which could either be in low volatility assets or in a well- diversified portfolio.

The "new normal" of low growth, low inflation and low rates, amidst political turmoil, does not negate sensible principles of investing, but perhaps calls for a revision of return expectations.

Broaden your Horizons

On the 1st of November 2019, a 15th addition was made to our collection of Capricorn Unit Trusts. We are excited to announce the launch of the **Capricorn Global High Yield Fund**.

The Fund provides highly diversified exposure to the US Dollar short-term interest rate markets. Its investable universe includes direct interest bearing assets and exchange traded funds with fixed interest mandates in US Dollar. The Fund is denominated in Namibia Dollar, providing the investor with a cost effective and convenient way to obtain exposure to hard currency. The Fund's average duration is limited to a maximum of three years to minimise interest rate risk.

The typical investors are those who wish to protect themselves against a potential depreciation in local currency whilst still earning foreign interest income or who wish to obtain a stable US dollar return to add diversification to portfolios. The optimal investment period is medium to long term.

The interest returns will only be subject to a final 10% withholding tax. Direct investments in foreign interest bearing investments are fully taxable under current legislation.

The Fund Fact Sheet and Fund Overview is available for download on our website at www.cam.com.na

Should you wish to invest, simply use Capricorn Online. Once logged in, you can either do a new buy or switch from an existing fund. Alternatively contact our Sales & Channel Support department at 061 – 299 1950 or cam.service@capricorn.com.na

How to transact during the Festive Season

Our digital platforms enables you to securely transact on your investment portfolio anywhere and anytime.

Our available digital platforms are:

- Capricorn Online
- Bank Windhoek Mobile App or Internet Banking Platform

Register today to ensure you are always up to date with your latest balance, or submit a withdrawal or deposit transaction without having to come to our offices or to your nearest Bank Windhoek Branch.

If you have not registered yet, simply download the Capricorn Online registration form for Capricorn Online or the Bank Windhoek Electronic Channels Registration Form from our website, complete and send it to cam.service@capricorn.com.na

For more information on Capricorn Online or the other digital platforms features please visit our website, consult your financial advisor or visit any Bank Windhoek branch.

Holiday Operating Hours

Our office will close at 11:00 on 24 & 31 December 2019.

Should you wish to make deposits or withdrawals on your investment portfolio on the above mentioned dates, please ensure your instruction is submitted by 10:00 in order to ensure timely processing of your instruction.