Newsletter

September 2019

Capricorn Asset Management

Economic Overview

It seems that the domestic recession is deepening. The Namibian Statistics Agency released the GDP numbers for the second quarter and it paints a bleak picture.

Overall, the economy contracted by 2.6% (all the comparisons refer to the year-on-year percentage change, i.e. it compares this quarter to the same quarter last year). The weakness emanates mainly from the primary sectors of Agriculture (-28.1%), as it succumbs to the decimating drought and Mining (-20.2%). Fishing registered a marginally positive growth (+0.6%).

In 2019 as a whole, GDP growth is likely to be around -2.0%. The Bank of Namibia was right to sharply downgrade the economic outlook in their recent publication to -1.7%. The weak economy and benign inflation outlook continues to argue for monetary easing.

However, there seems to be a dichotomy between the global arena, which is negatively impacted by international engagements (or the lack thereof) and the domestic arena of many economies. The latter is looking reasonably healthy, unemployment is at multi-decade lows, consumer confidence is holding up and house prices are rising at a healthy clip. Yet the globe appears to be in a liquidity trap. This means that both households and corporates have a preference for holding cash rather than for consumption and/or fixed asset investments. This is borne out by the amounts of cash on the balance sheets of corporates and banks.

This is a key reason why Central Banks feel obliged to force policy rates and long rates down, even into negative territory, in order to make cash less attractive and force people out on the risk spectrum, albeit with limited success so far.

Therefore, the main macro views, themes and trends that we highlighted in the recent past, continues:

- Global economic weakness and fears of deflation. We think these are somewhat overblown, we are unlikely to experience outright deflation, nor is full-blown global recession imminent.
- Domestic recession continues to intensify. This year will be contractionary with no visible catalyst to trigger an exit out of the malaise.
- Lowering of domestic inflation expectations. Inflation is to end this year close to 3%, rising thereafter to average around 4% in 2020 and 5% in 2021.
- Monetary easing in the form of lower interest rates. We expect the next cut by the Bank of Namibia to come in February 2020.
- Difficulties in the Fiscal arena. Fiscal slippage and funding pressures threaten creditworthiness. It is however mostly priced in, otherwise bond yields and the currency would be stronger.

Our investment related conclusions remain largely unchanged. Money Market yields continue to tick downwards in line with the outlook for rates generally. The liquidity position of Namibian banks has also improved lately which puts downward pressure on deposit rates. However, low inflation means that a fair real return is still achieved with minimal risk.

Lower interest rates and the “hunt for yield” should continue to benefit high yielding bond markets like our own. There will no doubt be volatility in bonds around the Budget statements of October, but a spike above 9% would certainly present a buying opportunity. We expect neither Namibia nor South Africa to default on Government debt obligations anytime soon.

Listed property remains a “value proposition” with its yield being higher than ten-year bond yields. So far, the asset class has not rerated mainly due to weak fundamentals such as low rental escalations and high vacancies, combined with cost escalation. We have increased our exposure to this asset class somewhat based on the high yield and the expectation that earnings will not suffer that much.

Equity markets are unlikely to perform well if earnings growth remain constrained and will be subject to risk-on-risk-off swings driven by geopolitical tensions and views on the most likely actions of policymakers. It is said that "markets stop panicking as soon as policymakers start to". But in the end it is about whether companies are able to make profit or not. Lower interest rates make these profits more valuable for investors and thus support share prices.

Frequently Asked Questions about Capricorn Online

Q: What is the cut-off time for instructions submitted via Capricorn Online?
A: We recently extended the cut-off time for instructions submitted via Capricorn Online from 11:00 to 12:00.

Q: What should I do when it says "Unable to authenticate user"?
A: Ensure you are entering the correct username (your client number) and password. If you select "Generate/Reset password" ensure you enter the correct email address and ID/Passport number.

Q: I did not receive the One-Time Password (OTP) sms?
A: The OTP is sent from 76777 or 76779. Please check the blocked contact in your message settings on your mobile device to ensure that these numbers are not blocked. Alternatively, ensure your correct cellphone number is listed.

Q: How secure is Capricorn Online?
A: You will always receive a sms when you login. If it was not you that logged in, please contact us immediately.

Transactions are only processed to your nominated bank account as nominated by you when opening your account.

Your email address, cellphone number and nominated bank account cannot be amended on Capricorn Online, and will only be changed if we receive a Change of Details form from you and can positively verify the change.

Always keep your password details secure and do not share it with anyone. We, nor any other financial institution in the world, will never ask for your password.

Q: Why do I receive a "blocked user" message?
A: This happens if the incorrect username or password were entered too many times. Please select "Generate/Reset password" to create a new password and OTP.

Q: How do I register for Capricorn Online?
To register you need to complete the Capricorn Online registration form. Contact us at 061 – 299 1950 or cam.service@capricorn.com.na

For more information on Capricorn Online visit our website, consult your financial advisor or visit any Bank Windhoek branch.

Capricorn Unit Trusts' Annual Financial Statements

The summarised report of the 30 June 2019 Annual Financial Statements of all the Capricorn Unit Trust Funds are available on our website under the "News Platform" section.

The audited Financial Statements and the auditor's report thereon are available for inspection at the company's registered office.

The Capricorn Unit Trusts distributed a total of N$1,343,946,398 in Interest and Dividends to Unit Holders during the year. This is an increase of 17% from the prior year.

Notes:

- All income earned in the form of interest and dividends net of expenses are distributed to unit holders monthly or quarterly.
- For interest earned and distributed to natural persons, 10% Withholding Tax (WHT) have been deducted in accordance to the Income Tax legislation. This was done on your behalf and no further action is needed by the unit holder.
- A legal entity must recognize interest distribution as income, in which case normal Income Tax treatment applies, except where exemptions exist.
- For all interest earned but not distributed yet to the unit holders at the financial year end, the Unit Trust is responsible for the WHT of 10%.
- The Minister of Finance for the second year in a row announced the proposed introduction of 10% dividend tax on dividends paid to local residents as well as the VAT on income earned by listed asset managers. No effective date has been set for the proposed legislation.