Economic Update | January 2020

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

The new year started off with a bang – literally – a bang in Bagdad. Since then, mixed geopolitical headlines have dominated the news. As we stated in our 2020 Outlook note, it appears that a global mini up-cycle is underway. Therefore, while global growth expectations are being shaved back a bit, 2020 is still expected to be an improvement on 2019. Central Banks have turned to more stimulatory monetary policy, there has been a thawing in the trade war and the Brexit process has taken a somewhat more sensible turn.

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 remains stubbornly low globally. Namibian inflation has also been very subdued. It registered 2.6% in December 2019, after bottoming in November as we expected. It will gradually rise in 2020 to just above 4%. In 2021, it is likely to remain in the 4% to 5% range. If we are wrong, inflation is likely to be lower rather than higher. The housing component, 28% of the total, surveyed in January, will be key.

The Federal Reserve, the USA central bank, is likely to hold interest rates steady for 2020. This means that elsewhere, where there is room to move, monetary easing is likely to continue via the lowering of interest rates. The Namibian economy is very 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.

Over the next two months, the National Budgets of both SA and Namibia will come into view. We fear that fiscal slippage will worsen. By this we mean that Government Revenues will likely be severely constrained by general economic weakness, whereas the demands on the Fiscus to spend more will be high. The Namibian deficit is likely to be 5.5% of GDP rather than the budgeted 4.3% and in SA 6.0%+ rather than 4.5%. Creditworthiness of both nations will be dented further as debt levels soar amidst weak growth and parastatals remain a drain. However, we do not foresee defaults by either Namibia or South Africa anytime soon.

In the table we show our fund returns over various periods. The beige coloured areas denote periods for which the respective funds do not have a return history. Therefore, it shows the return of the benchmark asset class.

CAM Fund Returns to December 2019

FUNDS	1M	3M	6M	YTD	12M	2Y	3Y	5Y	7Y	10Y
Equity	4.2%	5.6%	0.8%	5.0%	5.0%	-3.5%	2.7%	2.5%	6.7%	11.0%
Property	-1.6%	0.3%	-4.2%	1.9%	1.9%	-11.6%	-3.5%	1.4%	5.9%	11.2%
Bond	1.9%	2.0%	3.6%	12.3%	12.3%	11.0%	10.8%	8.7%	8.1%	8.9%
International	-2.0%	0.6%	8.1%	24.0%	24.0%	13.5%	12.8%	11.5%	17.8%	14.3%
Stable	0.9%	2.0%	3.8%	10.4%	10.4%	7.9%	8.4%	6.8%	7.4%	8.2%
Premier	1.4%	2.4%	2.4%	10.1%	10.1%	4.1%	6.4%	6.3%	8.3%	9.2%
Managed	1.9%	2.9%	1.5%	9.4%	9.4%	1.6%	5.3%	5.3%	8.9%	10.8%
Enhanced Cash	0.7%	2.0%	4.1%	8.5%	8.5%	8.6%	8.9%	8.6%	8.0%	7.0%
High Yield	0.7%	2.0%	4.2%	9.1%	9.1%	9.2%	9.5%	9.3%	8.7%	7.7%
Corporate	0.6%	1.8%	3.7%	7.6%	7.6%	7.7%	8.0%	7.8%	7.3%	7.0%
Investment	0.6%	1.9%	3.9%	8.1%	8.1%	8.2%	8.5%	8.3%	7.7%	7.4%
Beta Equity	3.8%	5.2%	-2.2%	3.9%	3.9%	-3.5%	2.7%	2.5%	6.7%	11.0%
Beta Property	-1.9%	0.2%	-5.9%	4.4%	4.4%	-12.7%	-3.7%	1.2%	5.5%	10.8%
Beta International	-1.2%	-0.5%	8.2%	23.0%	23.0%	12.6%	11.3%	11.0%	16.6%	14.3%
Global HY NAD	-3.4%	-6.8%	1.6%	0.9%	1.6%	9.4%	3.4%	6.2%	9.4%	9.4%
Global HY USD	1.3%	0.8%	4.0%	1.6%	4.0%	2.9%	2.7%	2.0%	1.7%	1.7%

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The major macroeconomic themes for the year, in our view, remains the following. This is a reiteration of what we set out in our 2020 outlook note.

- **Splintered politics.** Internal factions plague ruling parties and the political landscape is divided amongst more players. Populations are seething in protest from Hong Kong to Iran. “It is a symptom of fundamental dissatisfaction with self-serving elites” is but one of many reasons being put forward to explain popular anger. This makes for incoherent and ad hoc policymaking.
- **Polarisation.** Alternative economic systems of organising societies are being held up as models to be followed. These range from free market capitalism and social democracy to socialism, communism and Islam. In the US and UK, the left are proposing socialist measures which are likely to be rejected by voters.
- **The Sino-US trade war.** There will not be a quick, clear end to this drawn-out saga. It is essentially a clash of value systems and an arm-wrestle for dominance. It is also likely to add to polarisation as nations are forced to “choose sides”. A cooling Chinese economy will remain a drag on global growth and commodities.
- **Limits to monetary policy.** In most Developed Markets (DM’s) interest rates have been cut to the bone or even deeper – into negative territory. However, these economies seem to be caught in a liquidity trap. This means that corporates and households prefer cash above all other investable assets, which, in turn, means less borrowing, less spending and less investing. Emerging Markets (EM’s) generally maintain higher interest rates and therefore have the ability to cut rates further, which should be growth positive.
- **Revival of Keynesianism.** The liquidity trap has ignited a view that fiscal policy needs to step in to stimulate aggregate demand and get economies growing again. However, for most economies there is little room for this. Debt levels are already very high and increasing deficit funding could tip many into a scarier trap called the debt trap. Namibia is not in a debt trap yet, but overall debt is reaching dangerous levels.
- **Technological revolution.** Disruption of industries will continue as automation, AI and big data continues to grow apace. As the fields of robotics, nano technology and genetics open up new horizons, their full impacts on current industries are yet to be felt. Not to mention moral dilemmas that will arise.
- **Inflation remains 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).
- **Supremacy of ESG.** Environmental, Social and Governance considerations will be at the forefront, impacting a wide range of decisions from policy making to investing to spending patterns. Namibia seems to be making headway in the move to clean energy, but continue to struggle in the governance of SOE’s.
- **A “new normal”.** 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. 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.