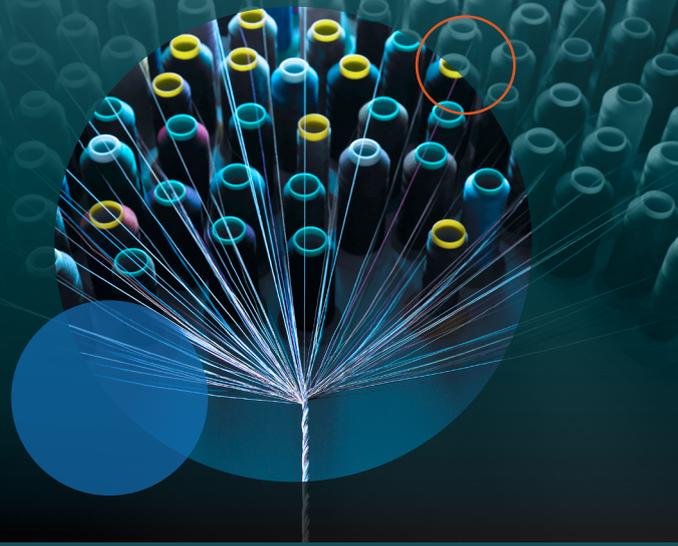


GNU and the outlook for SA post-elections



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The 2024 national elections marked a watershed moment in post-apartheid South Africa (SA), ending the ANC's 30-year outright majority rule. After securing just 40% of the votes, the ANC formed a government of national unity (GNU) with 10 other parties, collectively representing over 70% of the seats in the National Assembly. This GNU is significant, ushering in an era of coalitions at the national level.

Challenges and benefits of coalition governments

Coalition governments come with their own set of challenges. Early years often see instability due to trust breakdowns and ideological differences, potentially leading to disagreements, policy deadlock, and political instability. However, a multi-party government also has benefits, such as broader representation of citizens' interests and greater oversight, potentially leading to a more efficiently run state.

Numerous countries have successfully navigated coalitions. Lessons from Ireland, Belgium, Germany and Kenya reveal that successful coalitions are founded on mutual trust, nation-building, willingness to compromise, and a focus on commonalities rather than differences. An implementable and feasible programme ensures all parties work towards common goals, regardless of political affiliations. A professional and skilled public service can better advise coalition governments on programme feasibility and keep the country running when political parties fail to reach common ground.



South Africa's GNU: A framework for success



Encouragingly, the statement of intent signed by the GNU parties is founded on the respect for the Constitution, the rule of law, national unity as well as accountability and good governance. The statement also outlines a dispute resolution mechanism and a consultation council to monitor implementation progress. Overall, this should aid the longevity of the GNU.

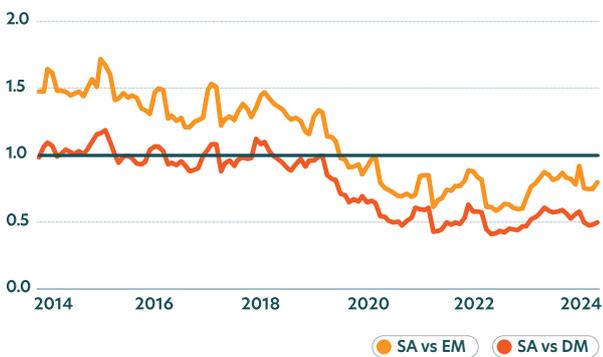
We believe that the GNU presents a potential upside scenario for SA, which could set the country on an upward trajectory through accelerated reforms, increased investments and a more efficiently run state. Operation Vulindlela (OV), which has driven coordinated reform momentum in energy, transport, and telecommunications, is also set to continue under the GNU.

Risks and market implications

However, the GNU is not without risks. Key risks stem from ideological differences between the ANC, DA, and IFP (the three largest parties in the GNU). The GNU could face challenges ahead of the local elections in 2026/2027 and the ANC's conference in 2028. A breakdown in trust, resulting in the three largest parties walking away from the agreement, could lead to political instability and an initial market sell-off as the country navigates a period of uncertainty until a new coalition government is formed.

Despite these risks, the GNU has been welcomed by the market. The FTSE/JSE All Share Index and SA bond market have shown positive gains since the GNU's announcement, while the rand has also appreciated. However, despite this performance, SA stocks remain about 20% and 50% undervalued relative to emerging markets and developed market equities on a forward earnings basis. Valuations look cheap compared to the 10-year historical average. We believe an improvement in the growth outlook and country risk premium, coupled with lower interest rates and reduced operating costs due to decreased loadshedding, could propel local assets to rally further.

Figure 1: SA vs. EM and DM price to forward earnings



Sources: Bloomberg and Alexander Forbes Investments

Figure 2: SA price to forward earnings

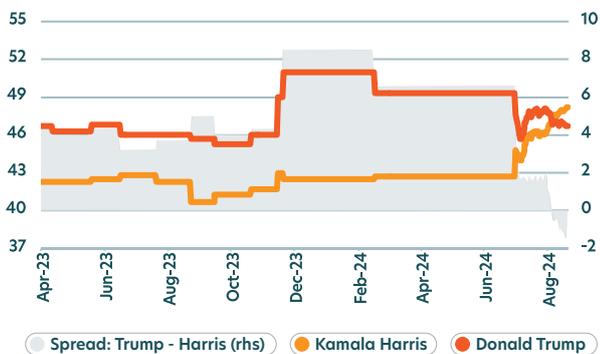


Impact of the US elections

While SA has seemingly concluded a successful election, investor focus has shifted to the United States (US) elections, where the presidential race is rapidly evolving. With President Biden stepping down and endorsing Kamala Harris, who is now leading in favourability polls against Donald Trump,

the outcome remains uncertain. As things stand, it's still too early to call the US elections, and recent events highlight the race's fluidity. Nonetheless, investors are beginning to wonder about the US elections' impact on the global economy.

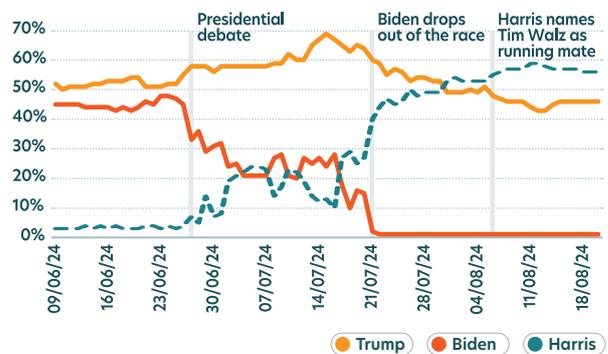
Figure 3: Trump vs. Harris favourability polling



Sources: Bloomberg, PredictIt, Alexander Forbes Investments

Harris and Trump have different economic and international policies, however, what ultimately becomes law and is implemented depends on the makeup of Congress. For the most part, a Harris presidency is expected to maintain the status quo with moderately restrictive fiscal policies and continued support for Ukraine and NATO. In contrast, Trump's potential return could bring more confrontational trade policies and loose fiscal policies that could further cut corporate income tax. This, combined with trade tariffs, could be inflationary and limit the extent to which the Federal Reserve is able to lower interest rates.

Figure 4: US President betting odds



Questions have also been raised about the renewal of the African Growth and Opportunity Act (AGOA) due in 2025. Under a Harris presidency, we see a high likelihood of AGOA being supported and renewed. Under a Trump presidency, the outlook for AGOA is unclear, given his isolationist stance.

At this stage, it's unclear what the overall impact on growth, inflation and monetary policy will be. However, this highlights how critical the US elections will be for the global economy. Global financial markets will have to contend with uncertainty and volatility as voting day (5 November 2024) draws near, potentially curbing the positive sentiment expected from the global synchronised easing cycle.

What advisers should consider

In light of the insights and details covered in this article, advisers need to consider several factors to ensure they are well-prepared, and confident regarding the advice they give their clients. Here are some key considerations and practical steps advisers can take:

Political instability and market volatility

Advisers should be aware of the potential for political instability and market volatility, especially if there are ideological differences within the GNU or if key parties walk away from the agreement. This could lead to short-term turbulence, so it's important to advise clients to focus on their long term investment goals.

As advisers, it's important to be proactive in this process, ensuring that a client's investment strategy remains aligned with their long-term objectives and risk tolerance. This alignment helps manage client expectations and strengthens resilience during volatile and shifting markets. Lean on the expertise of Alexforbes to provide specialised knowledge and insights into market trends, assist in interpreting economic indicators and recommend strategic adjustments to portfolios, where necessary. This guidance can help advisers make informed decisions that balance risk and opportunity, ultimately safeguarding investors' interests.

Diversification of investments

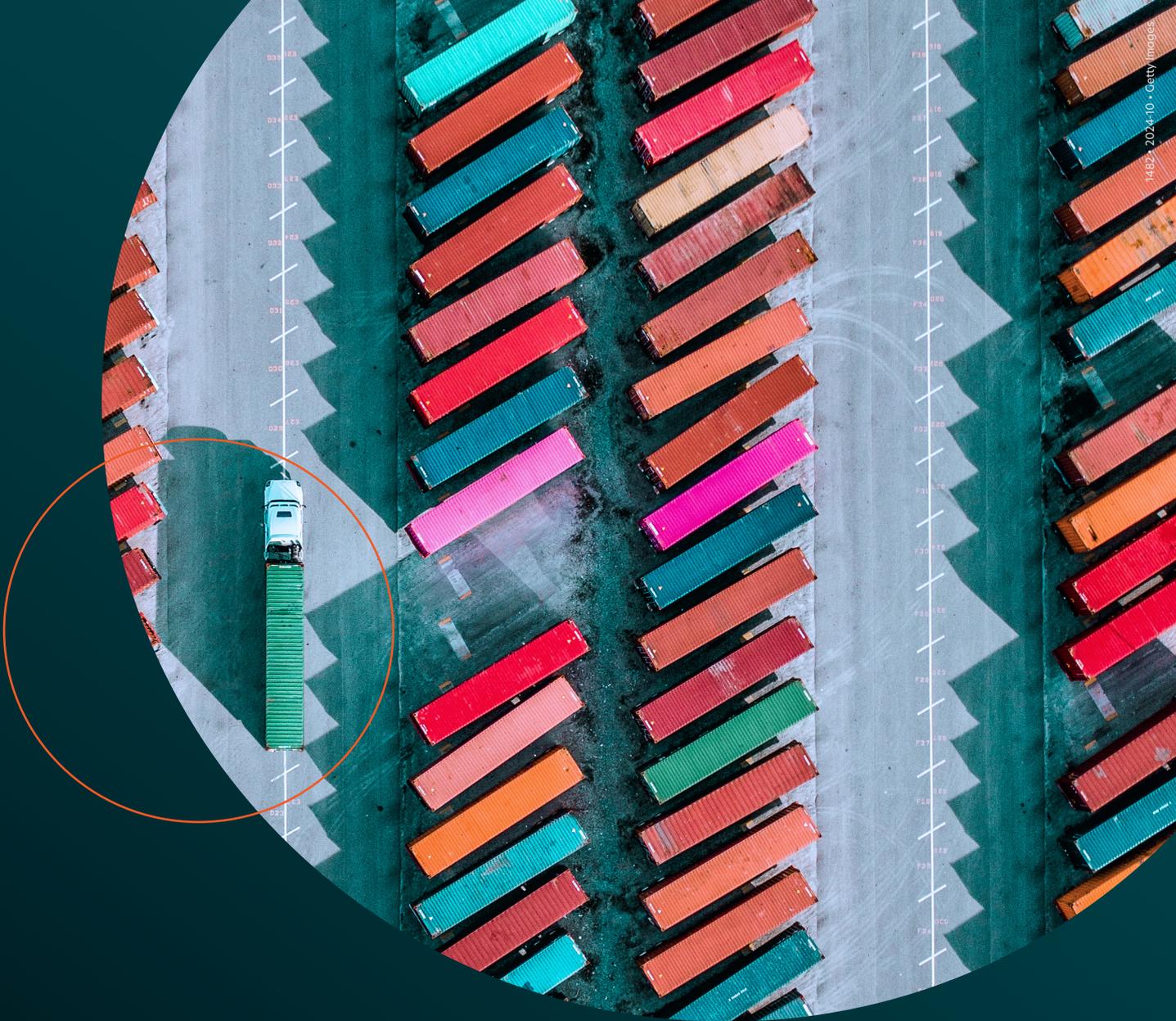
Risks cannot be eliminated, but they can be managed. Investment portfolios that are well-diversified across different asset classes and geographies can help cushion a client's investment strategy against uncertainty and potential downturns in markets.

Advisers should advocate for a mix of asset classes, locally and globally, to enhance their investment strategy under different market conditions. While it's generally advised to make minimal changes, it's important to review certain aspects, such as portfolio diversification, with the support of Alexforbes. By reviewing different scenarios to understand their potential impact on investments, advisers can confidently navigate uncertain markets, staying true to the investor's objectives while effectively managing risk.

Managing investor expectations

The political and economic landscape is rapidly evolving. Effective communication with investors during such times is essential to keep them informed about the performance of their investments and any significant developments.

By focusing on investor education that unpacks the potential for political instability and market volatility, and the importance of a diversified investment strategy, advisers can help manage investors' expectations and reduce anxiety surrounding short-term uncertainty and market volatility. By understanding these factors, investors can better grasp how political outcomes may impact their investments and better appreciate the importance of a diversified investment strategy.



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