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INVESTMENTS

ELECTION RESULTS AND POLITICAL LANDSCAPE

36ONE Asset Management, manager of the PPS Managed Fund, shares their views on the political landscape following the South African elections.

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These elections have catalysed a profound shift in South Africa's political landscape,

carrying profound implications for the nation's stability, policy trajectory, and economic outlook. The outcome, as widely anticipated, signals the dawn of a “collaboration” era, driven by the ANC's diminished share of the national ballot, plummeting from 57.5% to a striking 40.18%. Forecasts had pegged the ANC closer to 45%, a threshold that would have allowed it to potentially form a national coalition independently, excluding key players like the DA, EFF, or MKP.

The dawn of a “collaboration” era, driven by the ANC's diminished share of the national ballot

The market sentiment had been carefully calibrated to anticipate a favourable outcome in the form of an ANC+DA+IFP coalition, with investors viewing this configuration as a stronghold of reform continuity essential for upholding confidence and stability. However, the landscape has shifted, and uncertainties now loom large over the willingness of the DA and other invited parties to embrace this arrangement amidst the demands laid out by the ANC.

The crucial question now reverberates through political corridors and market circles alike: Are the DA and its counterparts amenable to joining a Government of National Unity (GNU) under the stipulations set forth by the ANC? This pivotal juncture demands a delicate dance of negotiation, where competing interests, ideological alignments, and the imperatives of governance converge in a delicate balance.

For the DA and EFF, in particular, the decision carries profound implications. On one hand, participating in a coalition government offered an opportunity to influence policy and steer the nation towards a path aligned with its principles. On the other hand, aligning with the ANC comes with the risk of compromising its identity and ceding ground to a political adversary.

As discussions unfold behind closed doors, each political party will weigh their options with careful consideration, mindful of the expectations of their constituents, the imperatives of national unity, and the exigencies of the moment. In this intricate chess game of politics, the stakes are high, and the decisions made in the coming days will shape the trajectory of South Africa's governance and its economic fortunes for years to come.

Are the DA and its counterparts amenable to joining a Government of National Unity (GNU)

GOVERNMENT OF NATIONAL UNITY

The ANC has officially announced its preference for a GNU, inviting all political parties to participate under their terms. The proposed GNU, comprising a coalition of prominent political parties including the ANC, EFF, DA, IFP, PA and the NFP, represents a concerted effort towards inclusivity, aiming to circumvent the necessity of forming alliances with potentially unpopular partners outside the ANC's base. This arrangement includes a framework wherein each participating party would secure cabinet representation commensurate with their respective vote shares, with the ANC retaining the prerogative to nominate the president and establish the cabinet structure.

The forthcoming first parliament sitting on 14 June 2024, is anticipated to unveil potential alliances with the ANC

In our assessment, the intricacies of the proposed arrangement, coupled with the steadfast positions held by key stakeholders like the DA, diminish the prospects of a GNU materializing without substantive compromises on ideological fronts. Concurrently, the ANC has issued a stern warning against any party that might instigate instability or undermine the Constitution of South Africa. In our view, this statement was a direct reference to the EFF and the MK Party, given their vocal advocacy for radical economic and constitutional reforms.

While the exact concessions the ANC is willing to make remain unclear, speculation suggests that they will retain ministerial positions in Finance and those departments currently leading reforms (e.g., electricity, mining, and logistics), in addition to public services given their importance in municipal elections. However, there is scope for other parties to secure the deputy minister position as well as other positions.

The forthcoming first parliament sitting on 14 June 2024, is anticipated to unveil potential alliances with the ANC when the president, speaker, and deputy speaker of the National Assembly are elected. Currently, the DA and IFP appear prominent, having advocated for President Cyril Ramaphosa to retain his position.

A notable development is the MK Party's decision to boycott the National Assembly sitting, effectively 'isolating' themselves from the GNU. Moreover, the EFF has publicly rejected participation in the GNU, indicating their refusal to join any government which includes the DA.

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From the vantage point of investors, the spectre of uncertainty surrounding policy formulation and the attendant risks associated with executing economic reforms within a GNU framework could potentially dampen appetite for South African assets. The lack of clarity regarding the trajectory of policy continuity and the efficacy of economic reforms underscores the need for a cautious stance among investors until greater certainty is attained.

INVESTMENT IMPACT

The aftermath of the elections is poised to unleash a storm of volatility across South Africa's diverse asset classes, with investors on tenterhooks awaiting the outcome of GNU establishment. Amid the current political uncertainties and their looming implications for fiscal policy and economic reforms, we foresee an uptick in risk premiums across South African government yields and the Rand.

If the Government of National Unity (GNU) aligns itself with reform agendas favouring business interests, we expect a noticeable reduction in fiscal risk premiums, presenting enticing prospects for investors to leverage a potential revival in South African markets. Valuations within the 'SA Inc' sector are becoming more appealing, marked by domestic yields nearing annual peaks and the USDZAR peaking above the 19 level.

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Ahead of the election we took profits in some Rand hedges that had returned good value and increased our exposure to SA Inc, reflecting our view that the market had overpriced a negative election outcome in SA Inc (with some probabilities assigned to an EFF or MK coalition). Post the election, we brought back some of the offshore cash to ZAR. Given the volatility in the market, we will not be making any significant adjustments to our asset allocation and investment strategy. Our funds are generally skewed to benefit from a positive outcome, but we remain nimble to any material changes to the political outlook of SA.

One of the main risks our funds face is the possibility of civil unrest or riots specifically in the KwaZulu-Natal (KZN) region of South Africa. These events could disrupt business operations, supply chains, and overall economic activity in the area, leading to financial losses for companies and investors alike.

Additionally, such unrest may have broader implications for investor sentiment and market stability, potentially impacting the performance of our funds beyond just the affected region. Therefore, it's crucial for us to closely monitor the situation and take appropriate measures to mitigate any potential negative impacts on our investments.

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