



The dawn of a new era for SA politics

Elections in South Africa took centre-stage in May, with SA equities (ALSI) initially up 3.4%, only to lose 2.4% in the last two trading days as the election results came through. The collapse in ANC support has left the ruling party in uncharted territory and the task of finding a new leadership solution for South Africa will now need to include far larger opposition parties than initially thought. Markets would clearly support a business-friendly coalition that would support continued policy reform and economic stability.

Globally major economies remained strong in May and global risk assets rebounded, particularly in the US, despite elevated bond yields.

US rates on hold, but Europe has started easing

Growth data for the US remained buoyant with reported GDP growth of 1.6% in Q1 2024 (annualized). Although unemployment ticked up slightly to 4% in May, jobs data was unexpectedly robust at 272,000 new jobs for the month. Wages were also up 4.1%, signaling ongoing inflation pressure. US core inflation data remained sticky, although marginally lower than previous levels. Consequently, the US Federal Reserve left interest rates unchanged in May and suggested a further delay to any rate cuts, which are more likely to materialize toward the end of this year.

European policymakers signaled divergence from the US with Sweden cutting rates for the first time in 8 years to support the economy, even at the expense of currency performance. The European Central Bank met market expectations at the start of June with a 25bps rate cut, although there may be a pause before the next one as the Eurozone reported increased manufacturing activity in May and could be turning a corner after two years of weakness.

Geopolitical risks do however remain elevated as tensions persisted in May with no resolution to conflict in the Middle East and Putin sustaining war efforts against Ukraine. President Biden's announcement of tariffs on China in key sectors including semi-conductors and electric vehicles increased trade tensions between the US and China and will likely increase as the US continues to gear up for elections.

SA election triggers a crossroads for SA politics

South Africans headed to the polls on the 29th May, in what proved to be a watershed election.

A surprisingly strong result for Jacob Zuma's newly formed MK Party decimated ANC support in KZN, and eroded the ANC's base in Mpumalanga and Gauteng, drawing the party's national support to just under 40%. This outcome represents a defining shift for the ANC, having comfortably held the majority vote since the start of democracy in 1994. The full consequences of the election outcome following ongoing leadership discussions run by the NEC will be clearer (although not certain) by 14th June; however, market speculation in the interim has led to high uncertainty and equity market volatility. Positive for democracy has been the general acceptance of the IEC's process and the running of a free and fair election.

The ANC is currently facing numerous options as they seek to forge a way forward. President Ramaphosa's recent announcement of plans to form a Government of National Unity (GNU) have been relatively well received by the market. Ramaphosa has indicated that the ANC believes a multi-stakeholder and collaborative approach to be in the best interests of South Africans at this juncture given the need to deal with severe challenges confronting the country.

While the ANC has opened the dialogue with all parties, Ramaphosa has highlighted that a party joining the GNU will need to commit to shared values. Importantly, he has stated that, "any agreement around working together needs to be based on a common measurable programme." And "all parties will need to respect the Constitution and rule of law."

A Multi-party leadership will present challenges; however, these statements are supportive for maintaining political and policy stability in SA going forward and suggest the desire to progress with economic reform. Negotiations between parties remain ongoing and will likely continue beyond the deadline to appoint a President. It remains to be seen which parties will elect to join the GNU and in what capacity. The risk remains that opposition parties become disruptive regardless, particularly at a provincial level. June will continue to be a state of flux as the detail around how leaders intend to approach and manage a new era in SA politics unfolds.

Overall, we still believe SA equity valuations remain reasonable. Our portfolio positioning reflects a focus on companies trading on generous valuations and with good dividend yields and strong liquidity.



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