JUNE 2024

ECONOMIC NEWSLETTER

SPEKTRA FINANCIAL SERVICES

BEYOND THE BALLOT: WHAT THE 2024 ELECTION MEANS FOR SOUTH AFRICA'S FUTURE

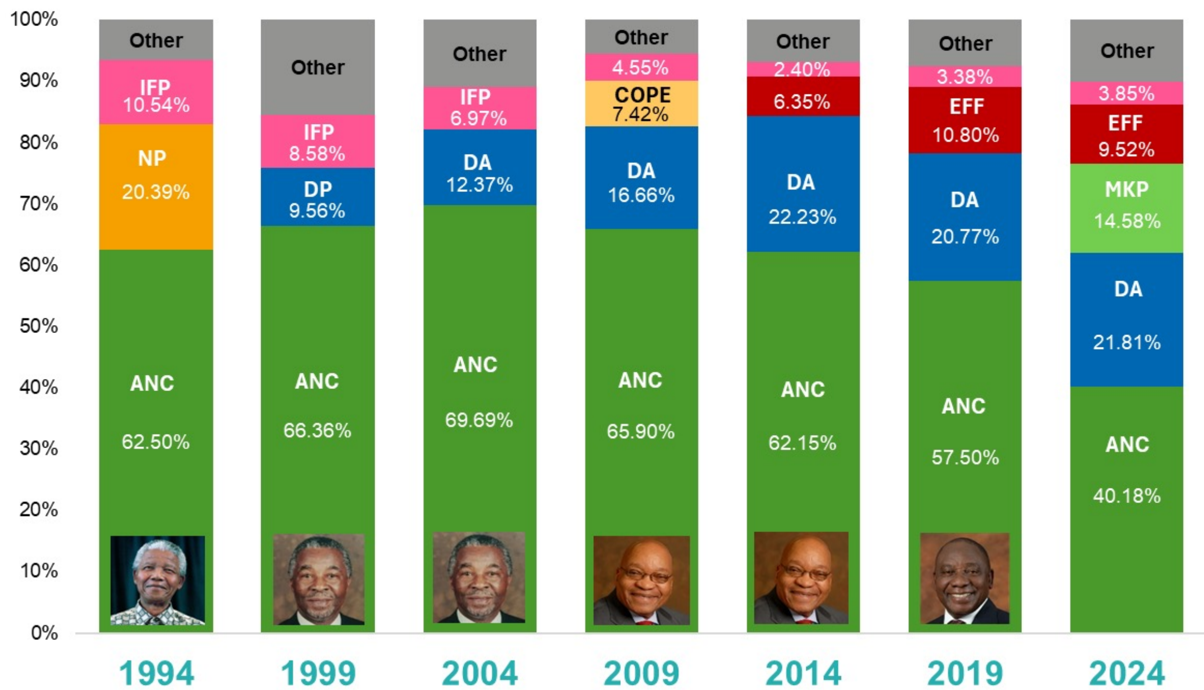
Wednesday the 29th of May saw South Africans gather to cast their votes for the sixth national democratic elections since independence in 1994. The election results (officially published on Sunday 2 June 2024) saw the ruling African National Congress (ANC) lose its majority status for the first time since the end of Apartheid, garnering only 40.18% of the election votes, down from 57.50% in 2019.

The main opposition party, the Democratic Alliance (DA), received the second-highest number of votes for the sixth consecutive national election with 21.81%.

Behind the DA with a 14.58% vote was the uMkhonto weSizwe (translated as Spear of the Nation), or MK Party. Founded only 6 months ago, the Zuma-led MK party supports left-wing populist ideologies and is largely supported within the KwaZulu-Natal region, where previous president Jacob Zuma’s support base remains firmly entrenched.

Relatively quiet over the election season, Julius Malema’s EFF gained 9.52% of the national votes, down from 10.80% in 2019.

Fig. 1. 2024 South African Elections
Historical Election Results



Source: Analytics, IEC

Overall, the election results have generally been positively received by both local and international markets alike. During the run-up to the elections our local currency remained relatively stable against the dollar, strengthening to an intra-month low of below R18.10/USD during May. By Monday the 3rd of June, following the final election results, the rand traded moderately weaker at just over R18.60/USD, still comfortably below the R19.20/USD level experienced in late April.

TALKS TURN TO COALITION

With the ANC securing only 159 of the 400 seats in the National Assembly (with at least 200 required to form a government), coalition talks are already underway between political parties. Under the constitution, the South African National Assembly has 14 days following the election results in which it must convene to elect a speaker and president. Forming a sustainable coalition would require the ANC to concede to a range of demands to bring other parties on board. Eager to avoid what they have called a "Doomsday Coalition" which would see the ANC partnering with the left-wing EFF, the DA have already expressed interest in joining with the ANC, which would see them take on selected parliamentary positions.

While there are several considerable headwinds to an ANC-DA coalition, their alliance would likely fuel the pro-business reforms initiated by Ramaphosa, and consequently would be welcomed by financial markets. A coalition between South Africa's two largest parties would likely prove a more stable relationship than one with younger, more radical groups.

Despite many predictions that current ANC president Ramaphosa would resign from his presidency, or even be ousted before the elections, the ANC has cemented Ramaphosa as their leader, stating that he would not step down. Indeed, the ANC has publicly rejected any coalition negotiations that stipulate the removal of Ramaphosa.

In addition to losing the national majority, the ANC also lost the majority vote in three select provinces it currently rules; Gauteng, KwaZulu-Natal, and the Northern Cape. This will likely lead to a significant shift in political allegiance at a local government level.

INVESTMENT OUTLOOK

South Africa's local equity market appeared to shrug off any political uncertainty surrounding the election, ending the month of May up 0.96%, and still up 1.60% for the year. Our local bond market experienced a few jitters towards the latter end of May, with the 10-year government bond yield closing just above 12.20% for the month – up from an intra-month low of 11.80%.

Year-to-date South African bond yields have continued to chug upwards, underscoring the fiscal and economic headwinds still faced within the country.

Global equity markets rebounded strongly over the course of May, with the MSCI World Index rising 4.53% in USD (up 9.77% year to date).

From a portfolio positioning perspective, we remain well-diversified and positioned close to strategic benchmarks across our risk-profiled range as we wait for the political dust to settle. Growth assets are still favoured on a forward-looking basis, while our local bonds continue to offer very attractive real yields to investors.