

## ■ OPINION / COLUMNISTS

**NICK VAN RENSBURG: The GNU presents an opportunity we dare not waste**

SA assets are well placed to take advantage of local and global realignments

 BL PREMIUM

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by NICK VAN RENSBURG



President Cyril Ramaphosa, joined by Deputy President Paul Mashatile, chairs a special Extended Cabinet meeting. Picture: Phando Jikelo, Parliament RSA

The government of national unity (GNU) has emerged as a crucial development in SA's political landscape, yet scepticism remains about its likely durability and effectiveness. We believe the GNU offers numerous benefits.

At a minimum, it represents a significant improvement in accountability, along with a renewed focus on economic growth and service delivery. Greater competition among ministries and the newly announced co-operation between finance, trade & industry, and foreign affairs are positives. A pragmatic foreign policy and business-friendly trade policy could attract foreign direct investment. The government also seems more willing to work with the business sector, which is essential for job creation.

SA's challenges are substantial, and we can only achieve success if we work together and attract foreign capital.

The commitment to the GNU is evident from all constituent parties and the urgency displayed is unprecedented. Municipal elections necessitate visible results by late 2026. This collective commitment marks a notable shift from previous governance, emphasising action over mere discussion.

Initiatives such as Operation Vulindlela continue to make strides in growth-enabling actors such as Eskom and Transnet, while regulatory reforms are unlocking private sector generation projects, valued at R390bn, aimed at adding 22.5GW of capacity. This is essential for ensuring that SA has the energy needed to support economic growth in the future. The expansion of the eVisa system is expected to enhance tourism from Brics countries.

While the bond market has responded favourably, the rand and equity market reaction has been more muted.

The MSCI SA dollar index is trading at similar levels to July 2023, which is noteworthy given the extreme challenges faced a year ago. Back then we were experiencing severe load-shedding, were fresh off the Lady R incident, with declining Transnet rail volumes leading to the lowest coal exports in decades, record diesel imports, and foreign selling of SA bonds and equities, along with significant domestic selling of SA bonds and equities related to regulation 28 changes.

In contrast, the SA 10-year yield has fallen by 1.5 percentage points over the period, reducing SA companies' cost of capital, load-shedding is much reduced, Transnet rail volumes bottomed, and a new operator will soon be managing the Durban port. Additionally, diesel imports have decreased and interest rate cuts are likely next month. The two-pot changes to retirement savings could stimulate consumer spending, and foreign investors have stopped selling SA bonds and have begun buying them. Company earnings are growing off a low 2023 base, which included high diesel costs and depressed consumer and business sentiment.

SA equities have faced numerous challenges over the past decade. These include emerging-market outflows, foreign selling of SA assets and domestic regulation 28 selling. Domestic selling has slowed recently as balanced funds have significantly increased their offshore

equity weightings, so the bulk of the shift from 30%-45% offshore exposure is behind us.

While foreign selling of SA assets within emerging markets has subsided, it has not yet turned into buying. Nonetheless, there is a growing interest among foreign investors since the establishment of the GNU.

Low positioning has allowed SA equities to remain resilient through the recent meltdown in Japan.

SA's weight in the MSCI emerging markets index has fallen from 10% to below 3%. The relative strength of SA means that future index rebalancing might see SA stocks being added back into the index, thus increasing our weight.

The global investment landscape is shifting, with most investors crowded into the US market. We believe this fails to grasp that we have left the unipolar world behind and are now in a multipolar world. US companies will find their addressable market shrinking globally.

The US election remains an unpriced risk with the potential to prompt investors to reconsider their heavy dollar allocations. Former US president Donald Trump said he wanted a weak dollar to help US exporters. This is unlikely to suit foreign investors, which own a record \$33-trillion in US treasuries and equities.

Historian Niall Ferguson raises the risk that a Trump presidency could disrupt the global alliance system, with huge implications for the dollar's status as the world's reserve currency. Any potential asset reallocation out of the US could benefit emerging markets, including SA.

Emerging markets contribute a dominant and growing share of global GDP, according to the IMF, yet represent only 10% of global equity market cap. Developed markets contribute a lesser and falling share of global GDP but have 90% of global equity market cap. This seems unsustainable. Emerging markets must, however, convert GDP growth into earnings per share growth to see the benefit. SA management teams have been relatively good at this.

While a global recession poses risks to SA equities, it is not our base case. Domestic stocks are likely to be more insulated due to interest

rate cuts, the two-pot system and a low earnings base.

The GNU’s commitment to fostering inclusive economic growth and addressing structural challenges presents an opportunity for improved economic growth, albeit off a low base.

We all need to embrace the opportunity provided by the GNU. If we fail to demonstrate that a business-friendly demeanour by the government delivers the best outcome for all South Africans, then we could see a move to the left in the 2029 elections. There is an opportunity for our country, and we dare not waste it.

• *Van Rensburg is a strategy consultant to All Weather Capital.*

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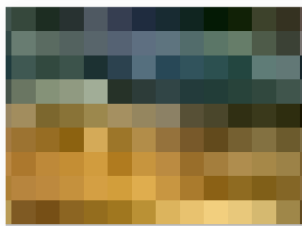
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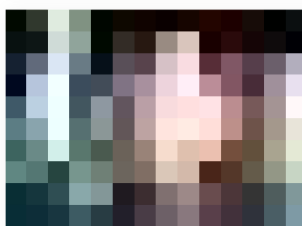
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