ECONOMIC COMMENTARY - By Riaan Prinsloo

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A TURBULENT WEEK

Friday a week ago, South African (SA) money managers were preparing for what they knew was going to be a volatile week. Investors were acutely aware that this was the most important election since 1994. The market knew that the ANC would win, polling suggested that the ruling party could obtain between 55% and 60% of the vote.

Markets would interoperate a 60% win as the country gave President Ramaphosa a strong mandate to reform the ANC, implement unpopular structural reforms, and do what was needed to grow our economy. This scenario would strengthen the rand and increase positive sentiment towards companies exposed to the underlying SA economy, such as banks and retailers. Additionally, the improved sentiment would support broader equity valuations.

However, there was a chance that the ANC could flunk out at voting stations, losing significant political clout to rising populist parties. Should the ANC lose a substantial number of voters, President Ramaphosa would be faced with continued infighting; he would not be able to address corruption and markets would respond negatively.

What local investors weren't too concerned about was the current trade spat between the United States and China. Afterall, some news outlets would have participants believe that a resolution to the trade war could be less than a week away. That is why it was such a surprise to global markets when Present Donald Trump stated on Twitter that he would be increasing tariffs on goods partially made in China, from 10% to 25%. Trump also said that he would be imposing tariffs on additional goods. Two Tweets, encompassing 105 words, wiped approximately 2 trillion dollars off global market indices in the days that followed.

While Trump's Twitter reduced appetite for risk assets globally, we received a glimmer of how the JSE would have reacted on Friday. After the IEC declared our elections free and fair, the rand strengthened and SA-centric equities, especially financials, finished the day stronger.

We, however, caution investors not to view the current market conditions as similar to the Ramaphoria experienced when Ramaphosa was elected as leader of the ANC in December 2017. While the election of Ramaphosa in 2017 was a binary event, either the Ramaphosa camp or the other camp would win, the election result was to a large part expected. Markets did not speculate on whether Ramaposa would win but by how much. Going forward, the next market catalyst will be who make it into the new cabinet and who doesn't. If the market is satisfied that the cabinet consists of reformers, technocrats and untainted politicians, valuations would be supported.

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