Showdown in O.K. Corral: #Zuma must Fall

Enough is enough! There is a naked predatory agenda here masked by a "broad cabinet reshuffle" but more importantly a paranoid Jacob Zuma fears going to prison and losing his fortune unless he still commands the loyalty at all the top levels of leadership in the ANC and government. Global markets and investors **are not** overly impressed by this turn of events, especially with rent-seekers in SAA, Eskom, ongoing State Owned Enterprise incompetence and the potential acceptance of a Russian nuclear deal now a reality. The straight line logic is that the last two Finance Ministers opposition to "state capture faction" is the sole reason for their removal from the ministry of finance.

If we don't see constructive leadership from within the ANC, Business and "we mere mortals" then prepare for unrestrained tax increases to fund state spending on projects that will drain taxpayers for decades to come as other pet presidential projects are fast tracked. This could spell junk status for South Africa. The result of which would be that we will pay more for our borrowing on bond issues, the Rand will be a good deal weaker, inflation will balloon higher, SARB - the last bastion of defence - may well be forced to be proactive and reverse earlier thoughts of rate cuts and become more aggressive than expected on interest rates in 2017.

However, there could well be **a silver lining** as the showdown between the "liberal left" and "state capture faction" rent-seekers is firmly in play giving rise to the distinct possibility of a successful motion of no–confidence in Zuma (50 defector votes for or 80 ANC members abstaining) and the long-overdue recall! Watch the Deputy President's moves as well as the SACP, who meet today to respond to the firings. We think this is a key moment to watch. If the SACP rejects the reshuffle, it will split from the ANC. Followed by Cosatu at a meeting on Monday.

Further, taxpayers - especially the poor and middle class - are close to exhaustion and will not tolerate the potential for unrestrained tax increases to fund pet presidential projects. We have seen the power of social media in harnessing the middle class mass action as in the student and other protests which, **in a functioning democracy, will hold the ANC to account** as it did in the mid-1980s when the intellectual community, and much more importantly, the business sector base ditched the P.W. Botha's of this world. This own goal and "**Black Swan" type of event could well precipitate another sea change**. Critical remarks emanating from Ahmed Kathrada's funeral point to a long-overdue awakening of what has been a rapidly shrinking and ineffectual ANC intellectual base.

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Zuma single-handedly will cause further mass unemployment. However, as stated previously, have faith in the best-crafted constitution in the world and remember, we Africans are resourceful people. This, and harnessing the power of Social Media, will protect the nation against the plundering of the public purse!

Where does this leave **South African investors?** Other than a lower dollar oil price, the current South African economic outlook remains quite bleak. The economy will now be bedevilled by a lack of confidence, low levels of private and government fixed investment expenditure and stagnant commodity prices.

Notwithstanding a subdued equity market over the period, resources had been particularly strong, equity market valuations did appear a little demanding relative to historical averages and domestically sensitive corporates continued to experience earnings headwinds. However, while Zuma's predatory agenda, together with a sub-par economic environment sows near term weakness, equity returns over the next 12 months are still likely to be in excess of inflation.

Bond yields are regarded as representing fair value given the sell-off over the last couple of days. We do not anticipate much more upward yield pressure but inflation challenges remain. A neutral stance is warranted.

Listed property returns will be constrained in the near-term by bond yields. Capital growth will be a by-product of distribution growth in the long run. Short-term returns are likely to be below that of long-term returns as the prevailing yield on SA bonds may prove to be a constraining factor.

Offshore investments continue to retain strong investment logic. The current account deficit is likely to remain large in this environment which together with a subdued economic outlook suggests the rand will remain relatively fragile.

In conclusion, one needs to be careful **not to get overly bearish** on the recent developments of Zuma's attempted state capture, slowing growth in China and the FED's pending interest rate hikes. A rational mind will reward carefully considered long-term strategies and stock picks. This window of opportunity is currently supported by the steepening and positive shape of the yield curve. Short of Zuma declaring a state of emergency, the long-term reality is the country is suffering from perennial macroeconomic faults such as a bloated public sector, lack of competitiveness and governance.

Therefore, I reiterate, that in these trying times with regard to investor sentiment, a level-headed approach is always more successful than fear-driven impulses and to quote Warren Buffett "Be fearful when others are greedy and be greedy only when others are fearful". Economic fundamentals do count and as central banks are still committed to close to zero interest rate policies, on the relative valuation matrix, equities globally remain the preferred asset class on a total return basis.

Mark Huxter – March 2017