**Focus: 2019 Elections and Trade Wars**

In May South Africa saw the outcome of the elections presenting a not too hot, nor too cold outcome. The ANC won the 2019 National elections with a comfortable majority of 57.51%, followed by the DA at 20.76% and the EFF at 10.79%. Thus, we can argue that the risk reward has improved post the May 8 elections; despite depressed SA valuations, oversold technical levels and low investor expectations. Various signposts point to stabilisation.

Following the elections, we think that South African equities have now become a **DELIVERY** story around economic reform implementation. Investors participating in pre-election polls indicated that domestic equity investors would need to see a result of at least a 57% ANC majority on average to become more positive about the government's ability to implement structural reforms, while the average for foreign equity investors was higher at 59.6%.

This call for structural reform is further reinforced by Stats SA's release of the Quarterly Labour Force Survey (QLFS) for the first quarter of 2019, which showed that the unemployment rate picked up to 27.6% during this period, after falling to 27.1% in the last quarter of 2018. This was in line with market expectations as recent data releases had been pointing to weak growth in the first quarter.

"New Dawn" markers to watch that will light the path to rehabilitation and structural reforms:

1) Announcement of new cabinet and reduction in number of ministries (expected 28th May)
2) Increased visibility on Eskom restructuring (2nd Half 2019)
3) Clarity around land reform (Early June 2019)
4) Clarity surrounding the Independence of the SARB (Early June)
5) Regulatory clarity – mining charter etc. (June)
6) Continuing to root out corruption (medium-term; ongoing)
7) Fiscal opportunity − Data from the Auditor General of South Africa (AGSA) reveal that a significant amount of government expenditure over the last few years has been classified as "irregular", "fruitless and wasteful" or "unauthorised". (medium-term)
8) Reducing the public sector wage bill (medium-term)
9) Addressing critical skills deficit (medium-term)
10) Improvement in the ease and cost of doing business in South Africa (medium-term).

Geo-political events such as" Trade Wars" rarely result in full-blown global recessions. However, the concerns about the US-China trade dispute have been intensifying as the two sides dig in for a fight. History suggests that equities almost always outperform bonds and cash, outside of recessions. As highlighted in prior articles, the positive slope of the yield curve mitigates against an imminent recession.

Following the unsuccessful conclusion to talks, China unveiled its next move: higher tariffs on USD 60 billion of US goods as of 1 June. The USA had already further increased tariffs on USD 200 billion of Chinese goods.

While we expect volatility in equity markets to likely remain elevated until there is a resolution in the trade dispute, we view recent developments as resulting in the USA strengthening its negotiating position. Our base case remains that the two sides will eventually reach a deal, though the deadline has likely been pushed further down the road.

Of course, an even bigger near-term selloff in global equity and credit markets is possible, if the current impasse between D.C. and Beijing persists without any indication of fresh negotiations.

Despite the greater uncertainty, we do not believe markets are headed to a full-blown market crash. However, the odds of a trade agreement being reached **this year** are only 50/50. If the talks do break down completely, China's policymakers will almost certainly ramp up additional stimulus measures to offset the hit to growth from the US tariffs.

Therefore, we confirm our long-term positive view on global equities, especially US equities, as we expect resilient global growth, dovish central banks, tame inflation, and accommodative financial conditions to continue to support global risk appetite. However, given the threat of additional tariffs and with European elections coming up, we would in the near term consider a temporary buffer in cash to counter the current volatile situation, which we expect to normalise gradually.

Mark Huxter, May 2019