



Politics and the Markets

This year, many people around the world will go to the polls to vote in national elections. The U.S. four-year election cycle, culminating in November, is a significant event, as is South Africa's five-year national election cycle, with voting at the end of this month.

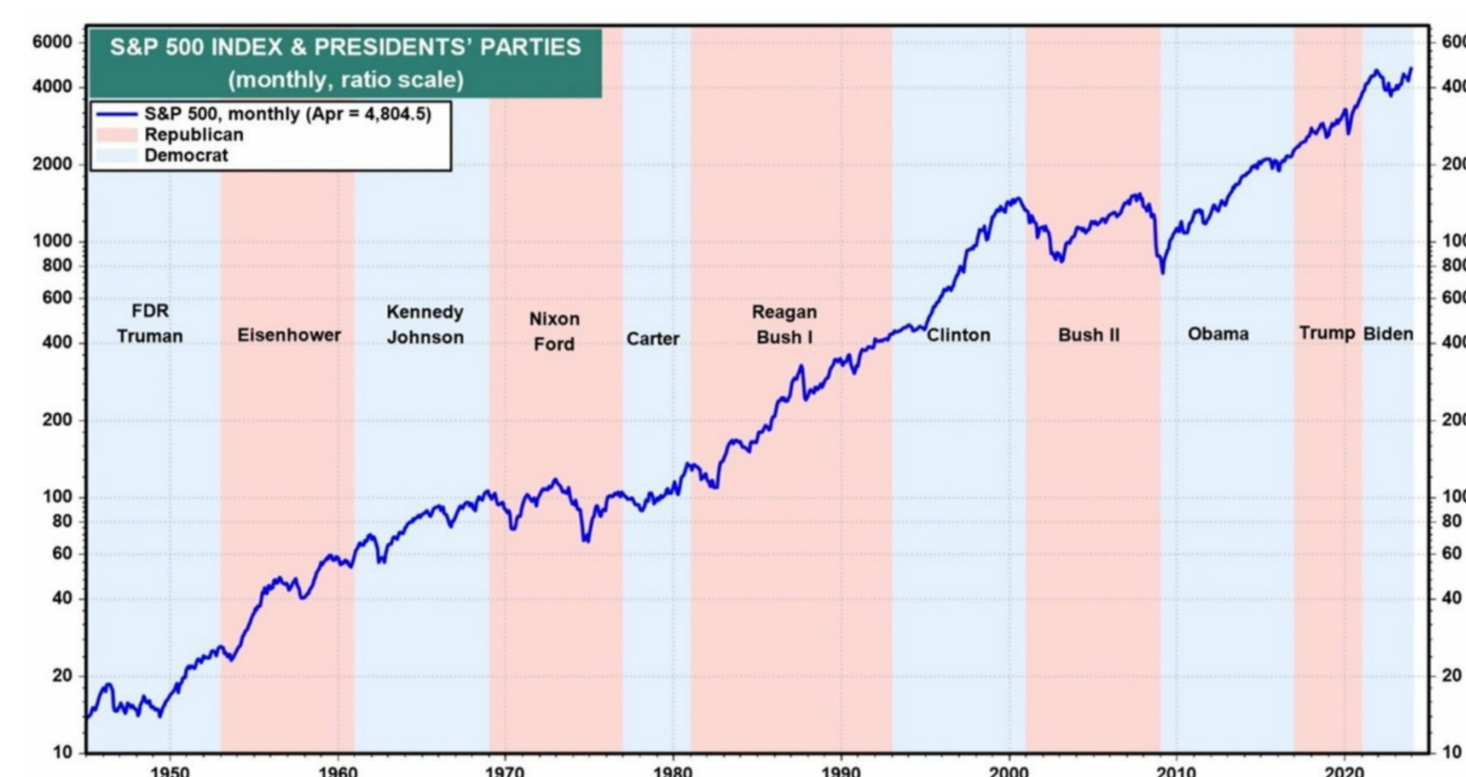
In an increasingly politicized world, there is always much at stake. For many, impending elections instill a high degree of uncertainty and even fear, which unfortunately can impact their investment strategies. With high news content, a classical response is "Let's wait and see what happens, before committing any more funds."

There is no denying that specific parties and their presidential candidates hold significant sway over parts of the economy. In the U.S., the three branches of the federal government (Congress, the House of Representatives, and the Senate) provide a system of checks and balances, which to some extent helps moderate the concentration of power.

Party politics in the U.S. can get nasty, but often there is little difference in certain policy areas. For example, in 2019, Republican Trump was criticized by Democrat Biden for imposing tariffs on various Chinese goods. However, this week Biden slapped tariffs worth approximately \$18 billion on imports from China, including electric vehicles, semiconductors, steel, aluminum and solar panels. Additionally, he is retaining the Trump tariffs.

Companies, and by extension market prices, will ultimately navigate through these government red tape issues. The chart below reflects the ongoing upward trend of the US market through combinations of Democratic and Republican presidencies.

Chart 1: S&P Index and Presidents' Parties



Source/s: LSEG Datastream, Yardeni Research.

However, politics and government regulation have varying degrees of influence in different countries, and one can never ignore their impact. As South Africa heads to the polls at the end of the month, a scenario is emerging where the ruling ANC party looks set to lose its majority vote. Having secured the majority in the 1994 elections and peaking in 2004 at just under 70%, this potential loss could have wide-ranging implications – both positive and negative.

One such ramification may already be unfolding with the signing this week of the National Health Insurance (NHI) bill into law. The plan for universal health coverage is hugely controversial and creates a lot of uncertainty for a major portion of the economy.

In conclusion, investors need to assess the underlying regulatory landscape in which companies operate. Naturally there is always a high degree of uncertainty, and yes, it does appear to be increasing globally. Countries that succeed in this regard will be those that can provide a more stable backdrop and less uncertainty, at least on a relative basis.



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We would love to hear from you.

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