

The next elections are round the corner and there are many questions surrounding the outcome, including the possibility of a coalition government. We approached some of the asset management houses to get their views. We hope you find the read insightful.



## 36ONE ASSET MANAGEMENT

Trends from the 2021 Municipal Elections together with a number of recent polls, show an increasing likelihood of the ANC achieving less than 50% of the national vote at the 2024 National Elections. This indicates that the possibility of a coalition at a national level has become very real.

In theory, the concept of a coalition government is positive, since it promotes an inclusive government that allows smaller parties to have a say in the governance of the country. However, in practice we have seen a number of unstable coalition governments in places such as the Nelson Mandela Bay City Council and the Johannesburg City Council. The key challenge is the mosaic of different interests in the coalition. Arguably, a coalition government should consist of parties that share a similar political ideology in order to ensure stability. We still think the ANC will remain the largest single party and that it will be the ANC that will need to find coalition partners to form a government.

While an ANC/EFF coalition is possible, we believe the ANC has very little appetite to form a coalition at a national level, given the differences in ideology and policy. Most of the EFF's leaders are former ANC Youth League figures who were expelled – and they differed from the ANC senior leadership on ideological grounds. This has not changed. We think that such an alliance would be unstable and result in a lack of leadership and policy decision-making. This could mean very little progress in solving South Africa's structural issues of unemployment and economic growth remaining subpar.

The ANC Veteran's League and its leader, Snuki Zikalala, recently expressed a preference for the DA over the EFF as a possible coalition partner. DA leader, John Steenhuisen, has not ruled out working with the ANC in government. According to a recent poll run by the Social Research Foundation, 48% of respondents would welcome an ANC/DA coalition, while 33% were sympathetic to the concept and 12% were lukewarm. Both parties have experience with governance and we think that such a partnership would present the best option for the country. In this scenario, stability could be achieved and both parties would be in a better position to hold each other to account.

Alternatively, depending on how far the ANC is from the 50% mark, it could look to team up with a smaller party – such as the IFP, GOOD etc. – in order to form a government. The dynamics of such a relationship are hard to predict. The smaller party could either be seen as being bullied by its much larger coalition partner, or it could be seen as acting as a king-maker.

*“We think that this is the most likely scenario and is a middle ground with very little changing in the current status quo.”*



## FOORD ASSET MANAGEMENT

Although there is a high likelihood that the ANC will not win an outright majority, they may only fall a few percentage points short of 50%. This means there is a wider range of potential parties they could partner with in order to secure a majority and may not need to necessarily partner with the DA or EFF in order to do so. However, coalitions have proven more volatile than expected, and it is possible that we may end up with a minority government with no stable coalitions.

Recent metro outcomes suggest a decreased likelihood of an ANC/DA coalition and an increased likelihood of an ANC/EFF coalition. An ANC/DA coalition would benefit investors – but may come with more conditions than the ANC would accept

– while an ANC/EFF coalition would likely lead to continued distraction from meaningful policy improvements, lacklustre growth, and even potential interference with the central bank’s independence.

*“If the ANC wins a majority or fails to form stable coalitions, the outcome is expected to be ‘much the same’, with slow growth and limited policy improvements.”*



## ALUWANI ASSET MANAGEMENT

Speculation, surveys and polls all indicate that the ANC may lose their majority at the 2024 National Elections and that there may not be an outright majority, opening the door for collaborations and coalitions, with the ANC on the one side and the DA on the other, both parties looking for ‘mates’. Though a bit early to call, it would appear that amongst the mid-sized parties outside the ANC and DA, the EFF and ActionSA are seen as the main king-makers, again both likely to be split (EFF/ANC vs DA/ActionSA). What makes it more interesting though is that the EFF and ActionSA appear content playing king-maker, with no real appetite to establish meaningful presence and gain voters outside their current stronghold.

The other outcome of speculation, surveys and polls seems to point to a historic low voter turnout rate or voter apathy, as the traditional ANC stronghold appears disillusioned with the loadshedding/corruption/joblessness etc and no other party making meaningful inroads towards convincing their voter base to switch. From our perspective, it is still too early to tell which party will partner with which – the situation is still very fluid and anything is possible.

*“The most concerning aspect of the 2024 national election outcomes is the potential repeat of the inability of coalitions to function constructively.”*

We anticipate a lot of jockeying, especially by the smaller parties, as they are courted by the larger ones – ANC and DA – with all sorts of compromises and promises being made along the way. One thing for certain though, is that as the election machinery kicks into full gear from end of 2023 onwards, markets will be volatile as we sift through the different permutations and what they will mean going forward.



## SASFIN ASSET MANAGEMENT

There have been a number of election polls indicating the possibility of the ruling ANC slipping below a 50% majority vote in the National Election scheduled for 2024. Whilst this is by no means a foregone conclusion, as the saying goes, in politics a week is a long time. There is still plenty of time for either the ANC or the opposition to do something that could have a significant effect on the outcome.

Having said that, if we were to examine the scenario where political coalitions became a reality, we would see the following broad outcomes:

### The good

1. Policy formulation would naturally represent a broader consensus than current, unless the ANC were to partner with a more extreme group such as the EFF.
2. The political discourse would shift more towards actual policy differences and choices rather than the current racialisation of politics. In other words, the broad general perception – that is not necessarily the reality – is that the ANC represents black interests and the DA represents white interests.
3. We would be more likely to see the involvement of the private sector in generating responses to our current challenges if the ruling coalition demonstrates greater political maturity.

### The bad

1. Given the requirement for consensus in coalitions, decision-making could end up taking longer than it has previously – meaning that some of our pressing challenges would continue to be delayed.
2. As we have already seen at a local government level, coalition governments in SA are inherently unstable, as the coalitions have not been driven by policy similarities, but by a desire to oppose the ANC. Or, where the ANC has formed a coalition it has almost always tended to be with smaller parties in a manner that allows the ANC to essentially continue as they have before. This means that as an immature democracy, coalitions in SA are highly likely to fall apart. Small parties that partner with larger ones in a coalition usually end up becoming irrelevant or being punished by voters at the next election. This introduces a high political risk premium into asset prices.

3. Should the ANC partner with the EFF, it may mean the end of pragmatic and sensible policy choices, and we could see a radicalisation of policy, which would see significant capital flight as an outcome. Attracting foreign investment in such a scenario would be incredibly difficult.
4. The ANC is still likely to be the largest party in SA for some time to come and if there are policy successes, they would want the electorate to believe that it was their doing, in the hope that at the next election they would achieve more than 50% again. So, we are likely to see an increase in political posturing as the next election cycle approaches, regardless of whether the coalition was successful or not.

There is currently a substantial push from the private sector to work with government in order to work towards solutions to our challenges. It is hoped that they – BUSA, B4SA etc – will be a voice of moderation to prevent a radicalisation of coalitions forming. However, there are very powerful forces within the ANC that would still seek to partner with weaker minority parties, as they would be less likely to hold the ANC accountable. For this reason, we see it as unlikely that the ANC will choose to partner with the DA – and the EFF for that matter, unless absolutely necessary. If they fell below 50%, their first prize would be to partner with the smallest possible parties, which would allow them to essentially govern in an unchanged manner.

*“The implication of this is that we are most likely to continue to muddle through from a policy perspective as a country and we remain trapped by the results of previous policy choices.”*

These asset managers have provided some interesting views and scenarios on the possible outcomes of the elections next year. It seems there is a high probability that the ruling party will not obtain a 50% majority, which may therefore result in a coalition government at a national level for the first time in our young democracy. There are pros and cons to coalition governments. Although we have a bad track record to date when it comes to coalitions at a local government level, let us hope that any coalition governments formed at a national level will govern effectively and implement well-thought through policies. We urgently need structural reforms to attract foreign investments and boost our ailing economy.

Leigh Kohler  
INN8 Invest: Head