



HARVEST

FINANCIAL CONSULTANTS

Client Letter

Second Quarter 2024

Dear Client

For those in South Africa, the second quarter was dominated by the National and Provincial elections. As predicted, the ANC has lost majority control, substantially changing the political landscape. The real story of the elections was probably the MK party, and that without it the ANC might just have held onto their majority – although hard to say how many voters would have opted for the IFP instead. Why I think this important, is because the electorate still voted in large number for socialist parties (even if the ANC is leaning a bit more to the right). Together with MK and EFF they make up almost two thirds of the electorate. The DA's support did not grow much, and their newfound influence has arisen from an ability to take advantage of a lack of cohesion amongst the parties to the left. Ideologically the ANC, MK and EFF are more aligned than the ANC is with the DA, however personal and tribal discord has clouded their common cause. None the less, there does seem to be an optimism that this time it will be different and the disappoint of a promised New Dawn five years ago is forgotten. The concern is that the failure of an attempted coalition in Gauteng eventually extends to the National level. At the core of Gauteng's failure appears to be pressure within the ANC to continue its legacy of patronage and the need to accommodate comrades. Indeed, this is evident at the National level, where the result is a bloated cabinet with disproportionately high ANC representation. I am sceptical and think the GNU is more a co-option, which is bound to frustrate the renewal agenda hoped for.

None the less, there is an atmosphere of hope, which is further supported by improved electricity supply (although helped by reduced demand) and signs of improvement in rail transport. This optimism has found its way into a stronger Rand and buoyant stock exchange. I have always said that it would take a paradigm shift in our politics to change my view that offshore is the better option. It is too early in the game for me to make that call, but I acknowledge that there is a glimmer of what could be a change for the better. However, until we see tangible results, I continue to advocate a strong bias towards offshore investments.

My favoured investment destination continues to be the USA, which grows ever more dominant globally and provides superior returns. They too have political challenges, but their strong institutions provide safeguards. It appears Biden's frailty has derailed his campaign and Trump looks more likely to succeed. Republicans have generally been good for markets, although Trumpism is a quite different brand. None the less, and on balance, I stick to my USA call.

India has also been through elections, with Modi (who is good for business) returning as prime minister. They too have their challenges, but it is still a country growing in dominance. Its large population and youthful demographic are contributing to a level of growth that is likely to see it soon become the third biggest economy after the USA and China.

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China, which I included in my recommendations for some time, has lagged in performance in recent years. Their poor handling of Covid (zero tolerance and extended lockdowns) and their close association with Russia has weighed on the economy and resulted in Western companies seeking to diversify supply away from China. Added to this has been excessive interference by government in markets, a stumbling residential property market, and a population that is ageing and starting to decline. Their low inflation and interest rates provide little room for government to stimulate a consumer led demand. They have turned to large production subsidies that has raised the ire of the West, which has most notably increased import tariffs on electric vehicles. I feel China is just too big to ignore, and despite their challenges, still think some investment exposure is desirable, but with a reduced allocation.

Outside of what I consider the big three (USA, China and India), there are pockets of regional opportunity and nuances such as industry and asset class allocation. I welcome the opportunity to discuss your set of circumstances to optimise your investment portfolio.

Tax filing for the 2023/24 year has opened. Please let us know if you require assistance with the completion and filing of your return.

After over nine years with Harvest, Kajal Raghunath will be leaving at the end of July to join a company that allows her to serve articles. I wish to thank her for her valuable contribution in sustaining our client service levels and wish her all the best as she furthers her career. She will be missed.

At the same time, we welcome Carol Joynt. Whilst not from the industry, she brings with her many years of administration experience. We wish her well in her new position.

Regards

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