



The Trump effect and South Africa

Stumped. That probably best describes the reaction, of just about everybody, to Trump's win – I suspect also of many Trump supporters. And don't believe the "I-told-you-so's", most just took a contrarian view for fun when they predicted a Trump win. Nobody suspected this! No wonder the markets reacted so violently. But what does it mean and what does it mean for South Africa (SA)?

First, a bit of context. I believe that global financial markets are mostly frothy and that the world economy failed to gain significant traction, even after massive stimulation. I also believe that a significant market correction was on the cards, something that probably would have been sparked by a US rate hike, relatively soon. So too might a Clinton win have had to deal with some sort of financial or economic realignment relatively soon. From a market point of view, a Clinton win would probably have been better because it's "more of the same"; i.e. more certainty which is usually good.

What we have, is a Trump win and that means tons of uncertainty. That's bad because it may hasten the inevitable; i.e. a market correction. But eventually uncertainty gets cleared up and before long the Trump presidency becomes, quite ironically, part of the establishment.

Three things are important to SA:

Firstly, a Trump win will inevitably affect international relations. He is not a career politician. Many other leaders don't like him, and some have even said so, while a few others may get along with him quite well – like Putin. So, chances are that the US's international relations may be readjusted. Just think of Mexico. How will Trump do business with his southern neighbour

after insulting them not too long ago?

This may (or may not) lead to political tension between the US and other countries, which may spook markets and may even lead to something nastier. Risk number one for SA is that Trump-induced international developments may affect us and may force us to change our own allegiances. There is very little we can do about this.

Secondly, the SA government and the Obama administration got along just fine. In fact, at times SA was rather cocky with the US, even potentially threatening our AGOA benefits. If we think that we will be able to get away with such arrogance with Trump, we are probably mistaken. In fact, a Trump administration may require a few special favours of SA, or else...

But thirdly, that is the opportunity. Let's accept certain facts. The US is the world's largest economy, they are the world's policeman, their currency is the world's currency and they are the only superpower. They may be arrogant and bossy, and their new leader may be a bully, but even bullies need friends. Perhaps this is the opportunity for SA to make sure that relations with the US are as good as it can get, we may even benefit from it economically. We must not miss this chance!

An unrelated, but more important issue, is our own politics. I suspect that local political conditions will remain very messy for at least a good couple of months, probably longer. I also believe chances are good that it may deteriorate even further. For one, I think Gordhan may be on his way out unless Abrahams goes to Damascus.



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With all of this – what is an investor to do? My view is that any uncertainty will eventually be good for the US\$. That means bad for the ZAR and other EM currencies. Coupled with an expected correction on world financial markets and a weak global economy, commodity prices will remain suppressed.

Should you sell and hide in cash? No! The best anybody can do, is to ensure that your portfolio is properly diversified, that your investments correspond with your risk profile and to make sure you have a good team looking after your assets.

Sure the whole Trump thing might be very disruptive. And who knows what the consequences will be. More importantly and closer to home, however, is that our own political circus can be far more damaging to the economy and your portfolio. Don't worry about Trump, worry about Zuma.

+ Dawie Roodt the Chief Economist at Efficient Group.
Dawie can be contacted on dawieroodt@efgroup.co.za