Top four things impacting South African investors in 2024

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As we find ourselves firmly entrenched in the year 2024, there are four important things that we need to be aware of as investors as we plot our investment journey. While the political landscape, interest rates, international asset allocation and regulation seem daunting when we think about them, it would be foolhardy to ignore them as investors.

1. The political landscape is shifting – at home and abroad.

As nearly half of the world's population heads to the polls this year, 2024 has been hailed by Time Magazine as not just an election year, but potentially *the* election year. There is little doubt that the outcomes will impact our world for years to come. Notably, while many nations grapple with electoral integrity issues, South Africa boasts a longstanding tradition of fair elections.

That said, the local political landscape is rife with uncertainty. To provide some clarity amid the ambiguity, numerous polling agencies endeavour to forecast election results. According to the latest survey conducted by the Brenthurst Foundation, the ANC is anticipated to fall well below the majority vote threshold of 50% nationally, marking a significant shift in the political landscape. The emergence of the MK Party has injected a new dynamic into the political arena, drawing considerable support from KwaZulu-Natal, a region historically aligned with the ANC. The survey suggests that the MK Party is poised to outperform the EFF, securing 13% of the vote compared to the EFF's projected 10%.

While the exact outcome remains uncertain until the conclusion of the elections in May 2024, one thing appears increasingly likely – South Africa is on the brink of a coalition government. This will certainly not only have an impact on local South Africans and service delivery, but also on international perception around South Africa's political stability.

2. 'High-for-longer' and a 'soft landing' – what's the deal with interest rates?

The 'higher-for-longer' narrative has become a recurring theme in discussions surrounding interest rates. But let's pause and examine why this phrase has gained traction. When the economy begins to overheat and inflation becomes a concern, central banks typically respond by raising interest rates to cool down economic activity. While most governors acknowledge that interest rates are a blunt tool, there are not really any other tools available.

The crucial decisions to make with interest rate cycles are when to start and how much to increase or decrease interest rates. Both the Reserve Bank in South Africa and the Federal Reserve in the United States initiated interest rate hikes, albeit with varying degrees of speed. However, neither central bank reached a point where there was certainty that inflationary pressures were abating. Instead, they chose to halt the hiking cycle, hoping to prevent an economic recession, or at least hoping for a 'soft landing', while also keeping inflation in check. Consequently, the tightening cycle concluded prematurely, with no immediate follow-up in cutting rates.

Despite the cessation of rate hikes in the US and in South Africa, inflation has remained stubbornly persistent, occasionally posing a threat of resurgence. The timing of interest rate reductions is open to speculation and as unpredictable as the weather patterns of Cape Town where all four seasons are often experienced in a single day. Similarly, the market prices in aggressive as well as tame interest-rate cuts, all on the same day. But it appears that central bank governors kept to their promise of 'higher for longer'.

3. Where to invest abroad – international asset allocation is key.

In March 2022, a significant change occurred in the asset management landscape in South Africa for investors as our offshore allowance for Regulation 28-compliant funds increased from 30% to 45%. This adjustment challenged the conventional belief among industry professionals that the maximum international allocation should always be pursued. This introduced a divergence in asset allocation strategies and subsequent investment performance outcomes.

Determining where, how and in what proportion to invest offshore has become a tricky decision, especially considering that investors' liabilities are typically denominated in rand. However, amid local economic challenges, including issues with Eskom, Transnet, state capture, and political uncertainty, the attractiveness of international opportunities cannot be ignored. Moreover, offshore investments offer extensive diversification benefits and include numerous choices – from tech to global luxury brands to property. The options are limitless.

With the increased importance of offshore investing, navigating regional investment opportunities around the globe has also become increasingly more important. One area of contention that significantly impacted returns in 2023 and continues to influence performance, is investing in China. While some asset managers perceive China as undervalued and identify pockets of value, others are wary of the Chinese government's interventionist policies. Furthermore, unexpected pressures in the Chinese property market and underwhelming growth have muted investor sentiment towards Chinese investments.

4. Regulation

Regulatory changes are being implemented in the market at an accelerating pace, with us witnessing one of the most significant shifts in 2024 —the introduction of retirement reforms in the form of the Two-Pot Retirement System. This system grants people who are saving for retirement the option to withdraw a portion of their retirement savings annually. Designed to enhance overall retirement outcomes, this change marks another fundamental shift in managing retirement savings and planning for a confident retirement.

The challenges are growing in size and volume.

Clearly, South African investors are navigating a maze of complexity within the political arena, where our democracy has reached a significant crossroads. Additionally, interest rates remain uncertain, while international opportunities beckon – all amid the ever-evolving regulatory environment. Our success as investors in 2024 will be determined by our ability to navigate these complexities. Our best chance of success is to partner with appropriately authorised financial planners and investment professionals in the industry who have knowledge, expertise and a proven track record achieved over time.

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Hildegard Wilson

Hildegard joined Glacier in March 2023 as the head of Investment Solutions, and taking leadership responsibility for:

- Glacier Research (Local and International – Navigate),
- Glacier Consulting (South Africa & Namibia),
- the Glacier Manco and,
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Hildegard is an experienced actuary who has a demonstrated working history in the retail and institutional investment industry, skilled in product development, asset consulting, market research and people management. Her experienced has been gained most recently at Momentum and before that, NMG Consulting, ZAQ Finance, Hewitt, Bacon & Woodrow and mCubed Life. Hildegard holds a Bachelor of Science Honours degree in Financial & Actuarial Mathematics from the University of Pretoria and is a Fellow of the Actuarial Society of South Africa (ASSA). She is also the deputy chair of the ASSA Investment Committee.

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