

Cutting through the political noise

The improved investor sentiment after the French election should be a good indicator of what a change in leadership in South Africa can do.



Isabelle Mateos y Lago, managing director and chief multi-asset strategist at BlackRock

Market moves have been dominated by politics this year, said Isabelle Mateos y Lago, managing director and chief multi-asset strategist at BlackRock, adding that the prolonged environment of uncertainty and political risk, both in South Africa and globally, means that investors should start cutting through the noise to find emerging investment trends.

“Going forward we are going to see something very different, which not is going to be linked to a specific event, but general uncertainty. Uncertainty on every topic from what the US administration is going to do, to whether Europe is going to pull its act together in the next five years until the next cycle of elections.”

She explained how the bond and stock markets registered movement in response to polls in France. “That gives you an idea of the potential (a change in leadership would have) for South Africa.”

Why global investors keep buying SA bonds

While history is not necessarily the best guide to future growth, global earnings growth is strong and can continue.

“If you invest in US treasuries or EU government bonds you essentially get more volatility than your income cushion, so that’s just not a great investment decision. On the other hand, if you invest in emerging market debt or, for that matter, in US investment grade credit, you still get a lot more income and that’s the large reason why you’re seeing so many flows coming into emerging market debt.

“That’s the reason why, despite the politics [in South Africa], global investors keep buying South African bonds. It’s because of exactly this picture, it’s the only place where investors get enough yield to manage the volatility seen in the market and that’s likely to continue.”

Climate change and investment

“Climate change is a very fundamental trend, and so far a largely underappreciated one for most investors.” She said the climate change impact on investments is likely to manifest in terms of four drivers:

- **Exposure to physical risks** – for example, water shortages, which are going to complicate supply chains for a lot of global companies.
 - **The fast pace of improvements in technology** – these defy all forecasts of cost reduction in terms of renewable energy, battery performance, the cost of batteries and electric vehicles. A number of companies are not able to keep pace with technology and if you have them in your portfolio you can lose big.
 - **Regulation** – Most countries have started adopting regulations that are going to constrain and significantly limit carbon emissions. And again, those companies that are not prepared for this will suffer financially.
 - **Consumer pressure** – This is going to drive companies’ performance in terms of ESG (environmental, social, governance) measures that are not captured by typical financial performance measures.
- Mateos y Lago was speaking at the Discovery Financial Planning Summit in Sandton.

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