Sanlam Investments

Multi-Manager



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Four investment scenarios for South Africa and the US: A scenario-based framework informed by local and global underlying managers

Election outcomes can influence market sentiment, but they do not determine investment outcomes in isolation. This framework considers four possible combinations of South African and US election conditions and explores how political developments could transmit through growth, inflation, fiscal credibility, yields, currencies and earnings.

The central message

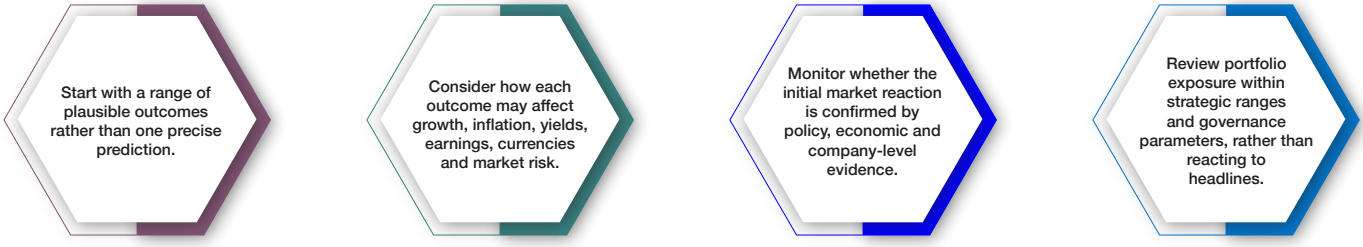
The aim is not to forecast election winners. It is to identify the conditions that could change the investment case, the evidence that would confirm those changes and the portfolio responses that may be appropriate within a long-term strategy.

This research was conducted through an analysis of our local underlying managers who considered both the South African and US elections, and global underlying managers who considered the US elections only. For both elections, the managers focused on coalition quality, Government of National Unity (GNU) durability, reform implementation, fiscal credibility, Treasury supply, inflation, the term premium and earnings resilience. Furthermore, the managers assed the election implications on both global and local currencies and asset classes.

The four-scenario framework

The framework combines two South African conditions with two US conditions. It is a decision tool, not a probability. forecast.

How to use the framework



SCENARIO 1

Supportive local and global backdrop

Stable or reformist South Africa + benign or order

South Africa

- GNU remains intact and reform momentum continues.
- Key metros form workable coalitions.
- Municipal governance and delivery begins to improve.

United States of America

- The political outcome is orderly.
- Inflation and fiscal risks remain contained.
- Earnings and the AI investment cycle remain resilient.

Manager perspectives

Local managers: SA and US lens

- Constructive where coalition stability and reform credibility improve.
- Watch Johannesburg, sovereign risk, bond yields and the ratings path.
- Local implementation remains the test of whether lower political risk can become a durable rerating.

Global managers: US lens

- Orderly policy and resilient earnings would support risk assets.
- Treasury yields and the term premium remain key tests of fiscal credibility.
- Quality and earnings delivery remain more important than party labels.

Potential market implications

Asset or exposure	Potential market effect
• **SA equities**	• Quality SA Inc and listed property could rerate.
• **SA government bonds**	• Carry may be supported by declining yields and tighter risk premia.
• **Rand**	• Could strengthen as confidence and capital flows improve.
• **US equities**	• Supported if earnings remain resilient and real yields are contained.
• **Global risk assets**	• A more constructive environment, although valuations still matter.

SCENARIO 2

Local progress, global pressure

Stable or reformist South Africa + adverse or disruptive US

South Africa

- GNU stability is maintained.
- Reform implementation and municipal delivery improve.
- Local political risk premia begin to decline.

United States of America

- Fiscal concerns, Treasury supply or inflation pressure increase.
- Higher real yields challenge long-duration assets.
- Earnings expectations, including AI-related expectations, become less certain.

Manager perspectives

Local managers: SA and US lens

- Several managers retain selected SA bond and quality domestic equity exposure where valuation and carry remain supportive.
- The rand, SA government bond yields and sovereign risk provide early confirmation.
- Local progress must be supported by delivery rather than rhetoric.

Global managers: US lens

- Managers focus on fiscal and yield risk, Treasury absorption and valuation sensitivity.
- Quality, pricing power and balance-sheet strength become more important.
- Diversification beyond concentrated US exposure may provide resilience.

Potential market implications

Asset or exposure	Potential market effect
• **SA government bonds**	• Could outperform if local credibility improves despite global volatility.
• **SA equities**	• Selective domestic opportunities may offer relative value.
• **Rand**	• Local progress may help, but global risk aversion could limit gains.
• **US equities**	• Long-duration and highly-valued segments may face pressure.
• **Global bonds and credit**	• Volatility may rise as markets reassess inflation, issuance and funding conditions.

SCENARIO 3

Global resilience, local setback

Fragmented or unstable South Africa + benign or orderly US

South Africa

- Coalition instability weakens confidence.
- GNU durability or reform momentum comes under pressure.
- Municipal delivery remains uneven or deteriorates.

United States of America

- The political outcome is orderly.
- Growth and earnings prove resilient.
- Market attention returns to fundamentals.

Manager perspectives

Local managers: SA and US lens

- Key risks include coalition churn, GNU fragility, reform reversal and weak municipal execution.
- Johannesburg and the structure of metro coalitions are important signals.
- Managers remain selective rather than abandoning South African assets indiscriminately.

Global managers: US lens

- The global manager lens remains centred on the US outlook.
- Orderly fiscal and earnings conditions may support global assets.
- Their US-focused views can inform the offshore component of South African portfolios.

Potential market implications

Asset or exposure	Potential market effect
• **SA equities**	• Domestic cyclicals and other politically sensitive assets may come under pressure.
• **SA government bonds**	• Yields and funding costs may rise if risk premia widen.
• **Rand**	• Likely to weaken if local confidence deteriorates.
• **Offshore equities**	• Could provide diversification support for South African investors.
• **Global bonds**	• May remain useful if US inflation and fiscal risks are contained.

SCENARIO 4

Local and global risk-off shock

Fragmented or unstable South Africa + adverse or disruptive US

South Africa

- Coalition instability and weak reform credibility increase local risk.
- Municipal and fiscal concerns become more visible.
- The rand and local bond market reflect a higher risk premium.

United States of America

- Fiscal credibility, inflation or Treasury demand deteriorates.
- Long-end yields and the term premium rise.
- Earnings downgrades and tighter financial conditions weaken risk appetite.

Manager perspectives

Local managers: SA and US lens

- Liquidity, diversification and local sovereign-risk indicators are central.
- Managers avoid large binary political bets and retain flexibility.
- Local bond carry must be considered alongside fiscal and coalition risks.

Global managers: US lens

- Managers emphasise fiscal risk, business quality and balance-sheet resilience.
- Cash, short duration, inflation protection and selected real assets may provide defensive characteristics, depending on mandate.
- A persistent rise in real yields or broad earnings damage would signal structural repricing.

Potential market implications

Asset or exposure	Potential market effect
• **Global equities**	• Broad valuation pressure and weaker risk appetite.
• **SA equities**	• Amplified pressure from both domestic and global conditions.
• **SA government bonds**	• Higher yields and funding costs.
• **Rand**	• Weakness under local and global risk aversion.
• **Credit**	• Wider spreads, with lower-quality issuers potentially more vulnerable.
• **Liquidity**	• Provides resilience and the flexibility to add exposure when pricing improves.

What the managers are watching

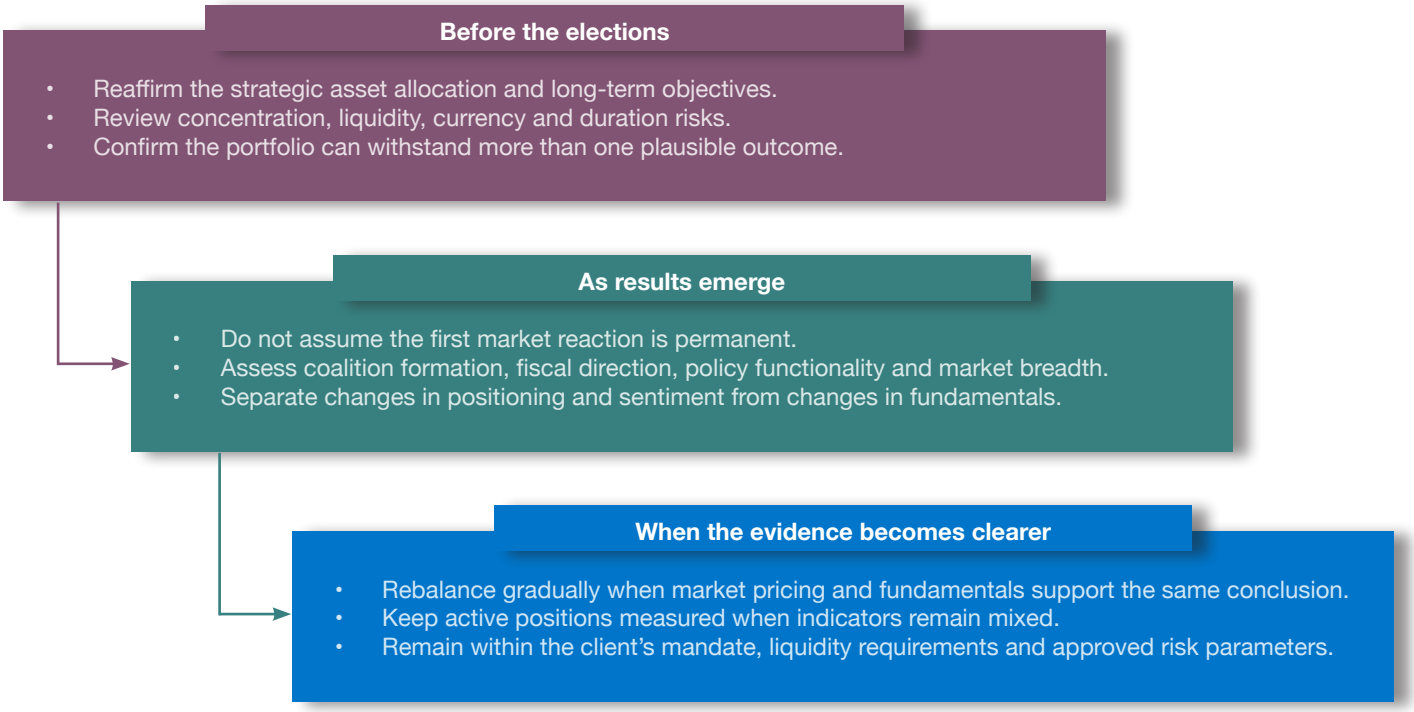
The indicators below help distinguish an event-driven market move from a more durable change in the investment environment.

Market or policy signal	Constructive evidence	Warning evidence	Primary lens
Coalition formation	Workable agreements and leadership stability	Prolonged negotiations or repeated leadership changes	Local managers
GNU and reform durability	Continued reform implementation	Cabinet tension or reform reversal	Local managers
Municipal delivery	Improved collection, infrastructure and service delivery	Rising arrears, irregular spending or delayed projects	Local managers
Rand and sovereign risk	Relative rand resilience and tighter risk measures	Rand underperformance and widening risk measures	Local managers
SA bond market	Healthy auctions and easing yields	Weak demand and sharply higher long yields	Local managers
US Treasury market	Stable auctions and contained term premium	Repeated weak absorption or persistent long-end sell-off	Local and global managers
US inflation and real yields	Contained inflation and stable real yields	Persistent inflation or sustained real-yield increases	Local and global managers
Earnings and market breadth	Resilient earnings and broader participation	Broad downgrades or narrow, fragile leadership	Local and global managers
Credit conditions	Contained spreads and orderly funding	Persistent spread widening and fundamental stress	Local and global managers

Implications for client portfolios

A framework for decisions, not a call to trade the result

Political outcomes matter when they change fiscal credibility, inflation, earnings, policy implementation or the compensation available for taking risk. Portfolio changes should therefore be linked to evidence, valuation and the client's long-term objectives.



Conclusion

The four scenarios may produce different market outcomes, but the investment discipline remains consistent: diversify across return drivers, preserve sufficient liquidity, focus on quality and valuation, and respond to durable evidence rather than election headlines. This framework is intended to support informed client conversations and sound governance through a period of heightened uncertainty.

***Source and methodology note**

This document synthesises the election-related views gathered from underlying investment managers. Local managers considered both the South African and US elections, while global managers considered the US election. The scenario framework is an analytical synthesis of the transmission mechanisms and portfolio considerations contained in those submissions.

The scenario labels are not probability forecasts. Manager views reflect different mandates, investment styles and time horizons. References to asset-class implications are scenario-based considerations rather than recommendations to trade a specific political outcome.

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