



Mikhail Motala

SA Inc. – All that glitters is not gold

Mikhail joined PSG Asset Management in 2015 and has since taken on fund management responsibility for several equity-centric funds. He currently manages the PSG SA Equity Fund and is a co-manager on the PSG Equity Fund and the PSG Flexible Fund.

Our positioning in SA Inc. shares has changed materially since the formation of the Government of National Unity (GNU). While we still see opportunities in the local market, as price-sensitive investors, we have become more selective as some parts of the market have repriced sharply, while signs of reform have also stagnated. This thinking aligns with our 3M investment process and highlights how our thinking evolves as markets move and as facts change.

A recap on our views at the birth of the GNU

On 30 June 2024, President Cyril Ramaphosa appointed the first cabinet as part of the GNU following the general election held in May 2024. It was a period of a renewed sense of optimism within South Africa, particularly in relation to the expectation for political reform to drive economic growth.

“We have decided to place inclusive economic growth at the centre of the work of the GNU and at the top of the national agenda. Our experience over the past 30 years has shown that when our economy grows, jobs are created. When our economy contracts, there is no job creation and jobs are lost. The GNU will pursue every action that contributes to sustainable, rapid economic growth and remove every obstacle that stands in the way of growth.” – President Cyril Ramaphosa, Opening of Parliament, 18 July 2024

The sense of optimism was evidenced in our portfolios as at 30 June 2024. In the PSG SA Equity Fund, aggregate SA Inc. exposure stood at 64% compared to the benchmark weight (FTSE/JSE Capped SWIX – subsequently renamed to FTSE/JSE Capped All Share Index) of 49%. This positioning was fairly consistent (after adjusting for direct global exposure) across our local equity-centric funds, with SA Inc. exposure in the PSG Equity Fund being 44% and PSG Flexible Fund 41% at the time. Today our SA Inc. exposure is approximately ten percentage points lower across these portfolios, begging the question – what has changed, and have we become bearish on SA Inc?

SA Inc. exposure in our equity-centric funds

SA Inc. exposure	30 June 2024	30 June 2026	Change
PSG SA Equity Fund	63.6%	53.9%	-9.7%
PSG Equity Fund	43.7%	34.3%	-9.4%
PSG Flexible Fund	40.9%	30.4%	-10.5%

Source: PSG Asset Management

Political reform to drive economic growth has underwhelmed

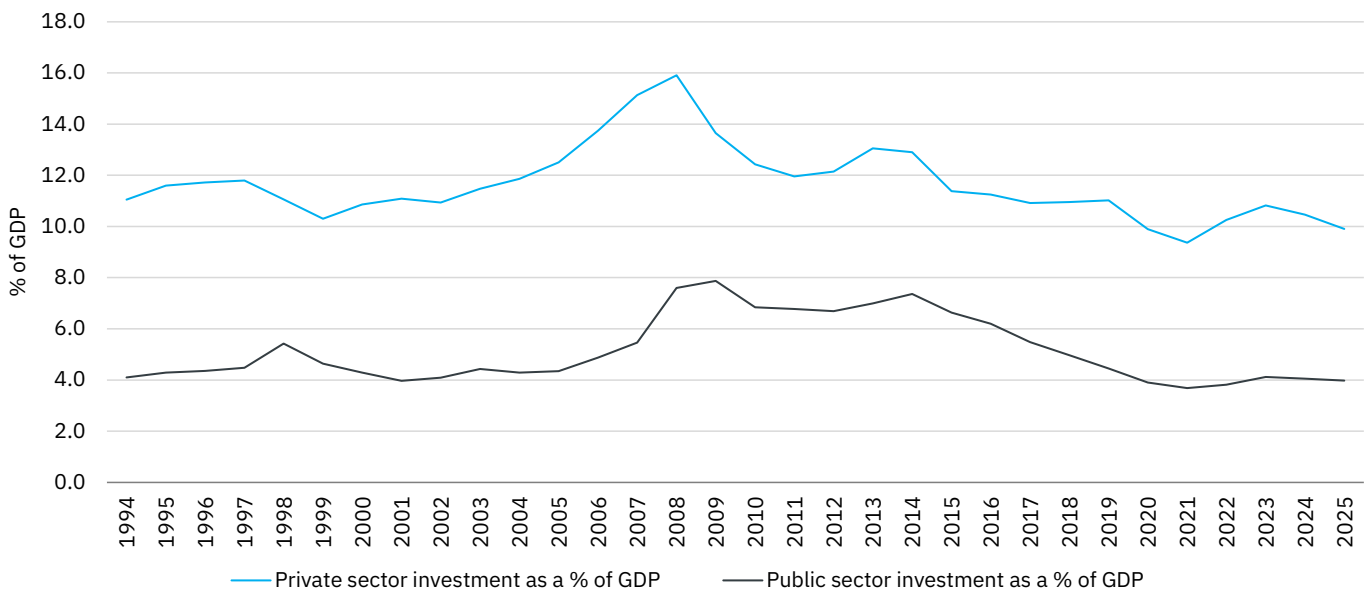
Much of the optimism about reform driving economic growth revolved around Operation Vulindlela Phase II. There has been strong progress in the pillars of Energy and Logistics, and further success at the Department of Home Affairs. However, that has partially been offset by a lack of progress in water, crime and corruption and local governments. Put together, the reforms have failed to kickstart private sector gross fixed capital formation (GFCF), which is currently hovering below 10% of GDP.

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SA private sector GFCF as % of GDP



Source: SARB Quarterly Bulletin

Asset prices have moved significantly

Despite the limited reform progress, which essentially means that the outlook for SA risk assets remains unchanged, prices have rebounded substantially over the past two years. From 30 June 2024 to 30 June 2026, the bond market is up 43%, banks listed on the JSE are up 56% and the listed property index is up a staggering 80%. These returns are well ahead of normal expected returns over a 2-year period.

The move in these assets can be attributed almost exclusively to the expectation of lower interest rates and inflation over the medium term. This expectation was, in turn, driven by two powerful forces:

- The South African Reserve Bank (SARB) announcing the new inflation target of 3% to replace the target band of between 3% and 6%.
- The significant moves in commodity prices which drove the South African commodities terms of trade to all-time highs in January 2026.

Citi South Africa Commodities Terms of Trade at all-time highs

The Citi South African Commodities Terms of Trade measures the relative performance of commodity export and import prices. South Africa's top four commodity exports are gold, platinum, iron ore and coal, while the single largest commodity import is oil.

From 30 June 2024 to 31 January 2026, the price of gold and platinum had each more than doubled, while Brent crude oil fell by 20% over the same period of time. This pushed the terms of trade to the highest level on record, surpassing the pre-GFC (Global Financial Crisis) boom in the middle of 2008.

The impact of this has been, and remains, a tailwind for the government's current account balance, which in turn has driven significant currency strength.

There has been a partial reversal in the terms of trade between January 2026 and today, primarily due to the impact of the war in Iran. This saw gold and platinum prices fall and oil prices rise. That said, the level today is still high by historic standards.



Citi South Africa Commodities Terms of Trade (2001 to present)



Sources: PSG Asset Management and Bloomberg

Not all SA asset prices participated equally in the rally

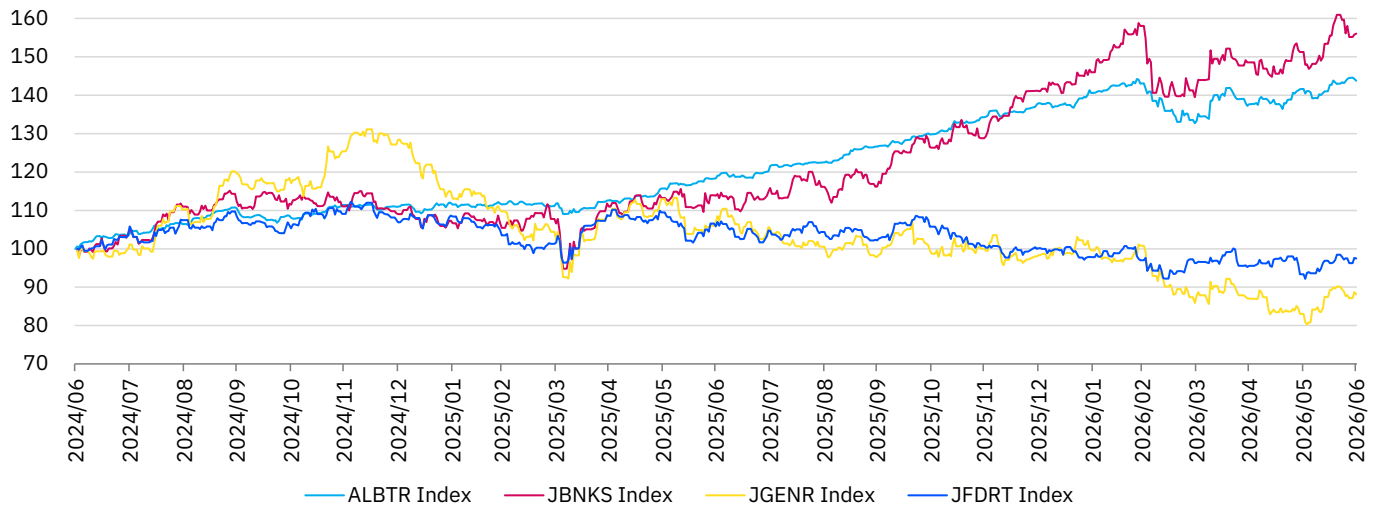
Consensus on interest rate movements over the course of 2026 has swung from two to three rate *cuts* being anticipated before the onset of the war, to one to two rate *hikes*, with the first being announced in May 2026. The South African assets that benefited most strongly in the period leading up to January 2026 have generally held up well, despite the turnaround in economic fundamentals.

It should be noted, however, that not all SA Inc. assets benefited from the inflation/interest rate rally. There is a sharp divergence between South African banks, which mirrored the bond move, and the retailers – both apparel and food – which are trading below the levels of June 2024.





SA banks vs retailers



Sources: PSG Asset Management and Bloomberg. Note: ALBTR Index = FTSE/ JSE All Bond Total Return Index. JBNKS Index = FTSE/ JSE Banks Index. JGENR Index = FTSE/ JSE Retailers Index. JFDRT Index = FTSE/ JSE Personal Care, Drug and Grocery Stores Index.

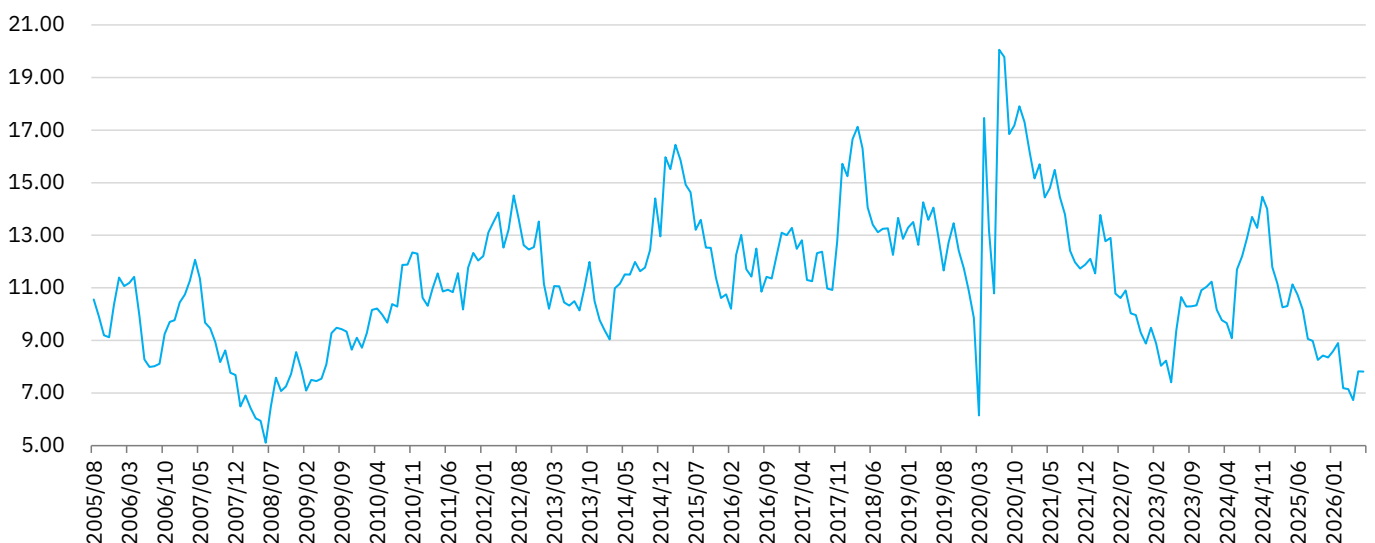
Environments such as this make stock picking more important than ever

A rising tide inevitably lifts all boats, but as Warren Buffett said, “You don’t find out who’s been swimming naked until the tide goes out.” In times like this, stock picking is more important than ever.

At [PSG Asset Management](#), we employ our 3M investment process to determine the best potential investment opportunities. Investing in great management teams has led us to own the likes of Discovery, Remgro, Shoprite

and HCI. Equally, there are other opportunities on the JSE which currently offer the widest margin of safety compared to history. A case in point is TFG Limited, which has an unmatched scale of 3 664 stores in Africa (alongside its businesses in the UK and Australia), but which is trading on a forward price-earnings (PE) ratio comparable to where it has traded during periods of crisis, namely: GFC, Covid-19 and the stage 6 to 8 load shedding/blackout fears in May 2023.

TFG Ltd PE ratio



Sources: PSG Asset Management and Bloomberg



It is therefore not all doom and gloom in SA Inc.

Despite trimming ten percentage points across our funds in SA Inc., our funds still have a healthy exposure to a range of South African companies run by good management teams where we think earnings will grow over the medium term.

In line with our globally integrated 3M investment process, we used the rally in certain SA shares to increase our weighting to other emerging markets that offered great pricing opportunities, particularly China and Brazil, where we continue to find exciting opportunities for our clients. As always, we remain committed to finding these opportunities, wherever they may reside.

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