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RETURNS, POLITICAL DEVELOPMENTS AND ECONOMIC FORCES: A HISTORICAL PERSPECTIVE ON THE JOHANNESBURG STOCK EXCHANGE (JSE): 2010 - 2020

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Abstract

To contribute to economic growth and development, a stock market, as a leading economic indicator, should reflect the macroeconomic fundamentals of a country by reacting to political, economic and other significant events via return adjustments for companies listed on the stock market. This article aims to provide a historical perspective on how political and economic events reflected in returns on the Johannesburg Stock Exchange (JSE) between 2010 and 2022. An event study methodology establishes whether the top 20 best and worst weekly return periods on the JSE all-share index (ALSI) coincided with local and international events. The performance of the JSE during this period is dominated by events related to recovering economies and stock markets after the Global Financial Crisis, substantial influence by the U.S. and China, and the devastating effect of the COVID-19 pandemic during 2020. The study concludes that although the JSE clearly and immediately reflected global macroeconomic and political changes, it responded little, or for long, to local developments. However, these local developments and structural deficiencies collectively caused share market performance in South Africa to disconnect from the developed world since 2013, contributing to poor local market performance, reduced investor confidence and increased capital outflows.

Keywords

Johannesburg Stock Exchange (FTSE/JSE); Returns; Political Events; Economic Events; Covid-19 Pandemic

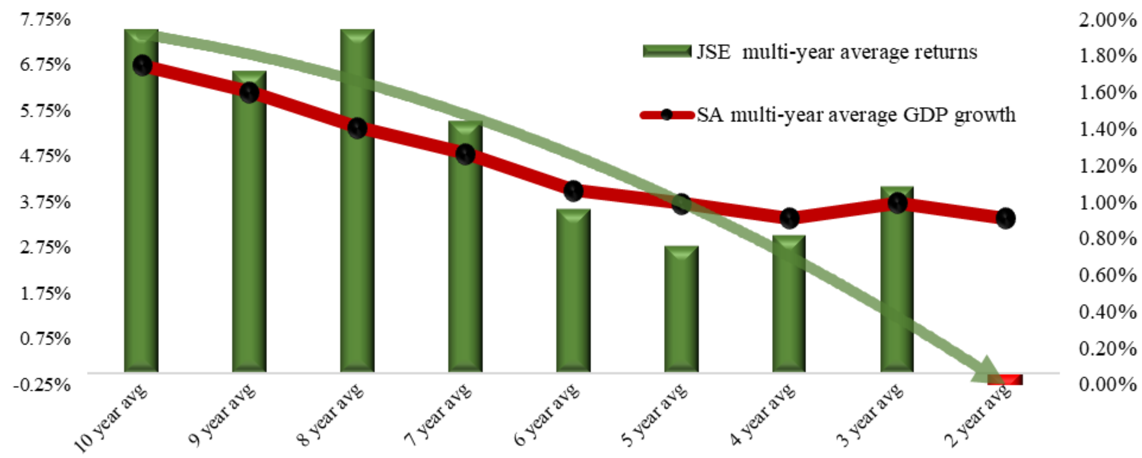
Introduction And Background

To what extent do political developments and macroeconomic forces reflect the profitability and volatility of investing in JSE-listed companies in South Africa? To answer this question, a descriptive approach was taken to provide a historical perspective on how significant political and economic developments and other external events reflected overall returns on the JSE since the post-global Financial Crisis (GFC) period between 2010 and 2022. The paper thus aims to verify the assertion that a well-functioning stock market functions as a barometer - a measuring instrument reflecting the overall economy's health (Moolman & Du Toit, 2005).

The history of the Johannesburg Stock Exchange (JSE) – in existence since 1887 – has always reflected developments in domestic government policy, far-reaching changes in the global monetary system, fluctuations in inflation, several stock market crashes like the “Great Depression” and “Great Recession”, dramatic political developments, the rise of more than one world economic powerhouse and several perplexing periods of investor irrationality, greed and fear, to name but a few (M Lukasiewicz, 2019; Byrant, 1987). In this regard, the second decade of the 21st century was no different, as it commenced with a sluggish global recovery from the U.S. housing crisis that eventually led to the global financial crisis (GFC) in 2007 (Keyser et al., 2020). This crisis period was characterized by growing sovereign debt levels, with global average public debt increasing from around 70% of Gross Domestic Product (GDP) in 2000 to around 100% in 2009 (Abbas et al., 2011). This increase was because governments had to undertake major fiscal stimulus initiatives to support their economies and financial system while simultaneously experiencing severely reduced revenue streams from restrained economic activity, less financial sector profits and lower asset prices.

The outlook for the 2010s initially did not look much better, with warning signs that the global economy was set for another decade of gloom due to weak productivity growth, an ageing workforce and poor investment levels (Addison et al., 2011). These warnings were exaggerated as economies like the U.S. experienced stable economic growth, while China achieved 6% and 10% growth between 2009 and 2019. As a result, the U.S. started experiencing a bull market in 2009 that persisted till mid-2022 before it showed a gradual downward correction.[4] In contrast, South Africa exhibited a steady decline in economic growth, which, since 2013, barely exceeded 1% per year. This poor performance was reflected in the long-run performance of the JSE while, over the short run, JSE returns often exhibited volatile periods due to high correlation with international stock markets (Marozva, 2017), volatile commodity prices (Mongale & Hinaunye, 2014) and significant international economic and political developments. These factors made South Africa very susceptible to contagion and periods of capital flight, which, over the last decade, has been compounded by questionable domestic political and economic developments that contributed to steadily reduced growth and average returns on the JSE while also inhibiting the ability to raise capital in local and international markets (see Figure 1).

Figure 1 : Multi-year average GDP growth and JSE returns (Jan 2010- Dec 2019)*



* Returns exclude dividend reinvestment calculations

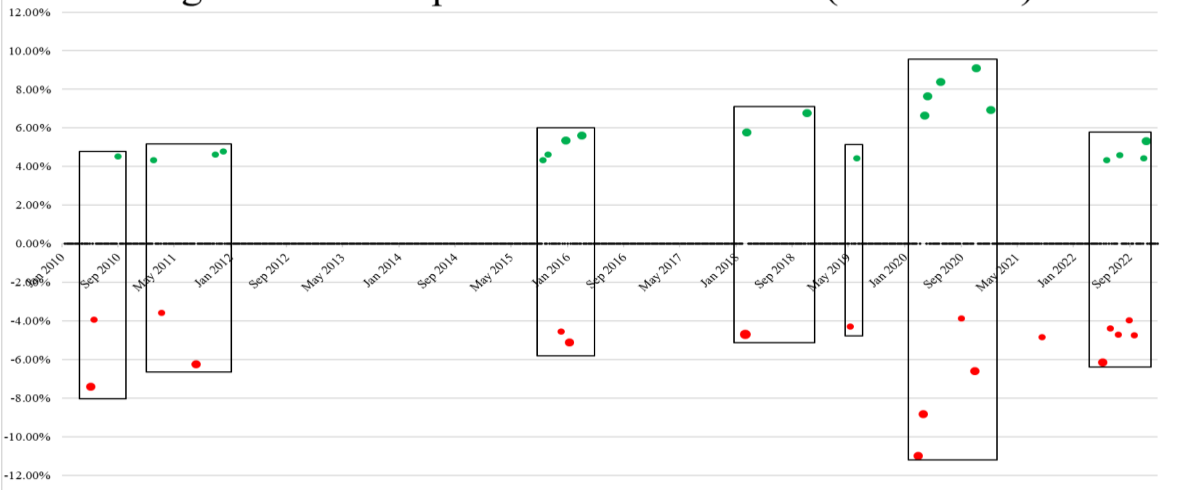
Source: S&P Global and own calculations

Figure 2 summarises periods when the JSE experienced the twenty best- and worst-performing weeks between January 2010 and December 2022, respectively. Figure 2 serves as a visual aid to isolate the most pronounced return variation periods and help identify significant periods of interest over those 22 years. From Figure 3, two immediate observations can be made: Firstly, extreme returns often occur in clusters, suggesting the presence of one (or more) major dominant influencing factor(s) at that stage. For the period under review, Figure 3 indicates the presence of several seven such 'cluster-periods'. Secondly, periods of extreme return seldom appear in isolation, with high-gain periods shortly following high-loss periods or vice versa.

This background has prompted the research to evaluate the performance of the JSE, including the amount of equity capital raised and foreign investment transactions, over the period following the Global Financial Crisis (GFC) up to and following the COVID-19 period. This article aims to identify which economic and political developments reflected most in JSE returns, foreign investor perceptions over this period, and whether the COVID-19 pandemic had a transitory or longer-lasting effect. The return 'cluster periods' in Figure 3 can be aligned with several economic, political, and natural events that dominated news reports and market sentiment at that stage. Since these events occurred internationally or on the domestic front, this article will focus on events in two broad sections. Section 2 will review and analyze significant international developments post-GFC, while section 3 will focus on domestic events. On the international front, section 2.1 describes the European debt crisis, which ushered in the second decade of the 21st century, followed by section 2.2, where the impact of U.S. fiscal and monetary policy and political decisions is described. Section 2.3 describes the rise to dominance of China, the resulting trade

[4] This was except for the short period February-April 2020, when the World Health Organization (WHO) declared COVID-19 a pandemic

Figure 2: JSE Top 20 Gains and Losses (2010-2022)



Source: S&P Global and own calculations

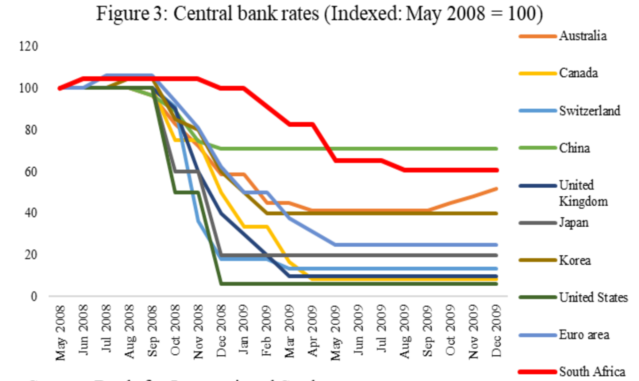
war with the U.S., and how China's hunger for growth significantly influenced commodity markets and, ultimately, JSE's performance. Section 2.4 analyses the impact of Britain's decision to leave the European Union, while Section 2.5 describes the market reaction due to the impact of Covid-19. On the domestic front, Section 3 identifies how significant political and economic developments since the GFC period caused the share market in South Africa to become detached from positive global developments in the U.S. and more reliant on China for sustained growth. The section also clarifies that while isolated periods of extreme return volatility arose due to certain domestic events, the impact was relatively short-lived and limited. Section six concludes.

International Economic and Political Developments Since the Post-Global Financial Crisis Period 2010-2022

Although the first seven years of the 21st century were mostly a period of prosperity, it was abruptly ended by the Global Financial Crisis (GFC) of 2007-2009. The GFC crisis had a severe contagion impact on the South African economy and the JSE. However, as with many crisis periods filled with excessive investor fear, the post-crisis period also provided investors with a lucrative recovery period. The FTSE/JSE All-share index (ALSI) improved by 50% (almost 60% on a total return index basis) from 2009 till the end of 2010, tracking similar movements in international equity markets and higher commodity prices. During these first few years after the GFC, non-resident investors also returned to South African markets as sentiment and risk appetite improved (Labuschagne et al., 2016). As a result, the total value of equity capital raised during 2009 by JSE-listed companies, although raised mainly by the resources and financial sectors, amounted to R107 billion - 40% higher than in 2008 (SARB, 2011).

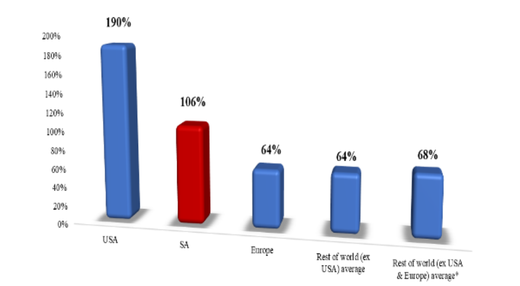
A primary reason for the world economy's continued recovery during 2010 was the solid monetary stimulus by central banks that kept interest rates close to zero (see Figure 3). This low-interest rate environment remained throughout most of the 2010s, which made it possible for governments to shoulder more significant budget deficits but also left no room to cut interest rates if further economic downturns were to emerge, and thus, other unconventional monetary policy measures continued to provide liquidity to economies.

Figure 3: Central bank rates (Indexed: May 2008 = 100)



Source: Bank for International Settlements

Figure 4: Equity returns for period 2010-2020*



* Rest of world: Australia, Brazil, China, Egypt, India, Japan, Korea, Russia, Singapore & South Africa.
Returns measured in local currency and exclude dividend yield
Source: S&P Global and own calculations

On the fiscal side, stimulus packages by governments, especially the U.S., also strengthened the stock market upturn, and as a result, U.S. shares enjoyed the most significant gains over the 2010-2020 decade. According to global investment bank Goldman Sachs, US stock market returns averaged 9.2% per decade over the past 140 years. However, between 2010 and 2020, the S&P 500 outperformed this historical average with an annual average return of above 13.5% and, as indicated in Figure 5, far outperformed the rest of the world over this decade.[5] Nonetheless, the rally in stocks was global during this period, with average returns, based on country index data and domestic currency terms, exceeding 120% in Japan and Germany, 100% in South Africa and around 60% for other global stock markets. This post-GFC growth rebound did not happen in a smooth, linear fashion as it was continuously interrupted by adverse global events – the first of which occurred in 2010 when the European sovereign debt crisis started to gain momentum.

European debt crisis

This debt crisis emerged in Greece in 2009 and spilt over to other susceptible Southern-European countries like Portugal, Italy, Ireland, and Spain (PIIGS), collectively known as the PIIGS countries. The effect of the E.U. debt crisis was transmitted to other countries via macroeconomic and financial market channels, including exports and exchange rates, and exposed commodity-exporting countries with strong commercial links to Europe (Kablan & Kaabia, 2018). South Africa was no exception, as share prices on the JSE reacted negatively to volatile surges in Greek and other PIIGS countries' bond yields (see Figures 5 & 6).

Figure 5: JSE vesus Greek 10-year rates (May-Oct 2010)
Indexed values (Jan 2010 =100)

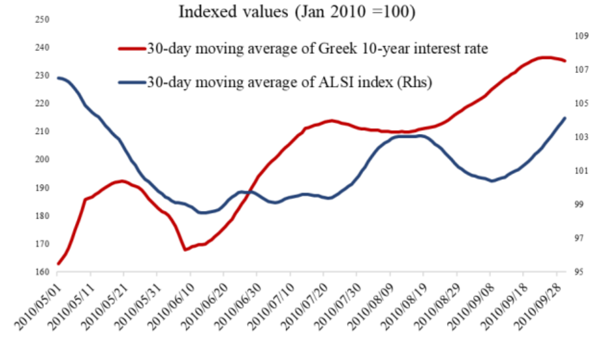
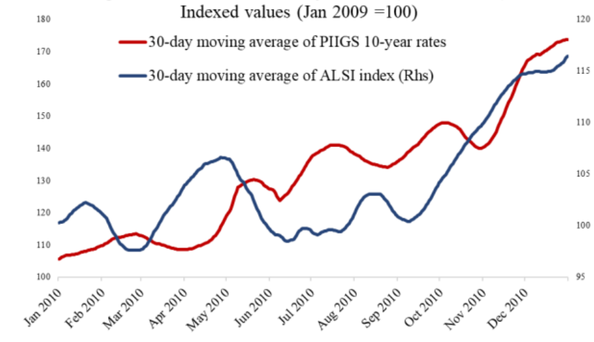


Figure 6: JSE vesus PIIGS 10-year rates (Jan-Dec 2010)
Indexed values (Jan 2009 =100)



Source: S&P Global and own calculations

Growing European sovereign debt problems prompted the E.U. and IMF to establish several emergency financial support facilities – the first of which focused on Greece in early May 2010 (Copelovitch et al., 2016). The debt problems initially created more market uncertainty regarding the Greek financial situation, allowing high-frequency traders to instigate a sudden market crash on May 6, 2010. The result of this was a significant intra-day volatility spike in security markets in the U.S. but also in markets around the globe. Within a few minutes, the U.S. share markets exhibited significant sudden losses that caused more than USD 1 trillion in value to evaporate before partially recovering (CTTC & SEC, 2010). The JSE was also exposed to this market imperfection and, by day's end, lost almost 4% in market value. As a result, the first week of May 2010 was the fourth largest weekly loss of -7.41% (5th largest monthly loss) on the JSE from Jan 2010 to Dec 2022. Initially, this first Greek bailout package did not improve investor sentiment much as the ALSI remained quite volatile and at depressed levels for several weeks that followed. The ALSI did start to recover in September, in any case. The recovery was partially due to the second tranche of Greek bailout package funding that became available in early September but also due to better-than-expected economic data coming from the U.S. and China that caused the best first trading week of September since 1982 in the U.S. All this positive sentiment also affected the JSE, where the ALSI eventually recorded the 15th highest weekly return, for the 2010-2022 period, during the first week of September (see figures 2, 5 and 6).

Despite lingering nervousness about the European debt crisis, the JSE continued to trend higher for the rest of 2010, tracking global equity markets and commodity prices. This general uptrend was observable in the price-to-earnings (P.E.) ratio of JSE-listed companies, which, on average, increased from 8.4 in 2009 to 20.7 in 2010 (SARB, 2011). These favourable conditions contributed to the equity capital raised by JSE-listed companies in domestic and international primary markets to R80.9 billion in 2010. As to be expected, this capital was predominantly raised within the resources sector (65%), with some also raised in the financial sector (17%) and the industrial sector (11%). At this stage, the World Economic Forum Global Competitiveness Report for 2010/2011 ranked South Africa seventh out of 139 countries in terms of ease of raising money by issuing shares on the stock market. Despite this high ranking, the amount raised by JSE-listed companies in 2010 was 24% lower than in 2009, and this was a continuation of a stagnating and, eventually, declining trend of equity capital raised since 2000.

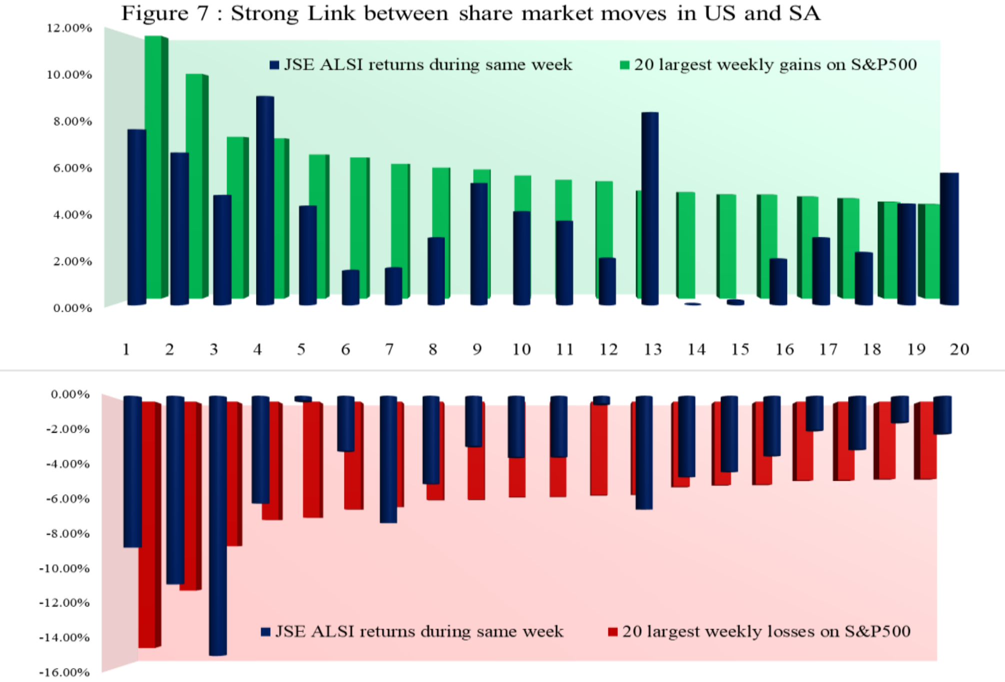
[5] The S&P 500 includes average annual dividend returns of about 2.35% for the decade.

Throughout 2011, the E.U. debt crisis proved to be a lingering problem that either crippled or boosted good market performance globally. For instance, during the last week of October 2011, a decision reached by E.U. leaders regarding a significant Greek debt restructuring agreement and increased bank capital requirements once again managed to moderate the growing European debt crisis. It was the primary reason for the JSE's rapid recovery in October 2011, when it recorded the fourth-highest monthly return for 2010-2022. The recovery was not a new occurrence since improved international risk appetite and a perceived workable solution to the European crisis caused the FTSE/JSE all-share index to reach a new high of almost 33000 during February 2011, when the JSE recorded the 19th best week of the review period. However, unlike the momentum gained on the JSE in October 2011 from another round of proposed E.U. debt solutions, the momentum gained from such initiatives in early 2011 was overshadowed by two main occurrences – the Fukushima nuclear disaster on March 11, which caused the 20th worst weekly ALSI returns on the JSE, and the growing fiscal debt concerns emanating from the U.S. which had a much more significant and lingering effect. As described in the next section, the U.S.'s fiscal and monetary policy decisions often affected stock prices, volatility levels and capital flows in developing markets like South Africa over the past decade.

U.S. fiscal and monetary policy

As to be expected, financial markets in a small open economy like South Africa are very exposed to monetary-, fiscal- and political decisions in the U.S. Figure 7 indicates an astounding similarity regarding the best- and worst-performing weekly returns in S.A. (ALSI) and the U.S. (S&P500). Not surprisingly, U.S. events often overshadow other international or significant domestic developments, as will become apparent in this section.

Figure 7 : Strong Link between share market moves in US and SA



Source: S&P Global and own calculations

In response to the crisis in 2008, central bank interest rates around the globe were reduced significantly to stimulate economies and combat the effects of the global financial crisis (GFC) (Figure 4). The U.S. was the most prominent, and even since September 2007, over 20 months, it aggressively started reducing its Federal Funds interest rate target from 5.25% to 0.125%. Fuelled by record-low interest rates and an "easy" monetary policy stance in the U.S., which made it cheap to borrow money, the U.S. equity market started to experience a "bull market" in March 2009. The bull market continued throughout the following decade and eventually became the longest U.S. bull market on record.

Initially, this growth phase was not sure at all, especially given the exorbitant amount of fiscal stimulus employed in the U.S. to limit the outfall from the GFC in 2008. As a result, the U.S. government incurred a series of budget deficits that increased the U.S. national debt level so much that it once again reached its so-called "debt ceiling" in 2011. At that stage, the U.S. government had always raised this debt ceiling in bipartisan to meet its financial obligations without interruption, but in 2011, an ongoing U.S. political debate regarding the acceptable national debt ceiling reached an impasse. The impasse was finally resolved on August 2 2011, when the Budget Control Act of 2011 was adopted, but the positive outcome from this was severely overshadowed by the first-ever U.S. sovereign credit rating downgrade by Standard and Poor's (S&P) on August 5. As a result, all three leading stock indices in the U.S. lost between 5% and 7% on the day, while the S&P 500 index lost more than 12% between July and September, making August and September 2011 the fourth and sixth worst-performing months in the U.S. of the 2010-2022 period. On the JSE, the ALSI was also affected and lost almost 10% between 1 and 8 August, making it the sixth largest weekly loss for the 2010-2022 period, and the negative monthly return for September was, at that stage, only exceeded by losses from the European debt issues in May 2010.

Continued monetary stimulus by the U.S. Federal Reserve and a depreciating rand caused non-residents to purchase about R18.8bn of local shares and JSE-listed companies to raise equity capital of about R40bn between November 2012 and April 2013 (SARB, 2013). This positive outlook briefly reversed in May 2013 as share prices came under pressure due to the U.S. Federal Reserve announcing potential plans to reduce the pace of asset purchases if economic conditions improved. As a result, bond yields immediately started rising in the U.S., and this market reaction following the Fed announcement became known as the 'Taper Tantrum’ (FRED, 2021). Surprisingly, the impact on U.S. stock markets was limited and short-lived, and in South Africa, the initial market reaction also seemed limited as FTSE/JSE ALSI only lost around 2.3% on May 23. However, the massive sell-off of South African bonds by non-residents that ensued during May and June caused large capital outflows, causing the rand to depreciate by over 11% and subsequently to an overall loss of -5.8% on the JSE in June 2013, which constituted the fourth most significant monthly loss for the 2010-2022 period.

After the fiscal deficit and 'taper tantrum' concerns of 2013 waned and the Federal Funds rate remained unchanged in the U.S., global stock market performance started gaining real momentum. Similar bouts of significant market reaction due to unexpected U.S. monetary policy tightening would eventually resurface. This was bound to happen as the Fed Funds rate remained at almost 0% for 84 months before the Fed gradually started raising rates again in December 2015. There was little market reaction after five initial rate increases between December 2015 and December 2017 since the hikes were expected. However, during the first two weeks of February 2018, market perceptions started to change dramatically worldwide as concerns mounted about another potential Fed funds rate hike and a possible U.S. market correction following its 20% growth in 2017 and decade-long bull run at that stage. This period of uncertainty, especially in the U.S. and China, caused the JSE to fall by more than -4.7% in both the first two weeks of February, making them the 10th and 13th worst-performing weeks for the 2010-2022 period. The decline turned out to be a global market overreaction, with many markets recovering significantly in the third week immediately after, including the JSE, where the ALSI experienced its seventh-best performing week for the 2010-2022 period.

The U.S. Fed was prompted to reduce the federal funds rate three times in 2019 as the U.S. and global economy started experiencing a so-called 'synchronized slowdown', blamed mainly on the trade war between the U.S. and China (Gopinath, 2019). Again, these rate changes had a subdued effect on global stock markets since they were expected. After the rapid reduction of the federal funds rate by 150 basis points in March 2020 to combat the effects of COVID-19, it remained at a level of 0.25% until March 2022, when the Fed had to start with an aggressive anti-inflationary policy approach. This led to a 400-basis point increase in the federal funds rate between March and December 2022. Unlike previous rate increases in 2019, these had severe implications for the rest of the world and did not go unnoticed as U.S. and global markets experienced several subsequent volatile periods. For instance, an aggressive 50 basis point rise during the first week of May resulted in the ALSI yielding the seventh-worst weekly return for 2010-2022.

Although this rate hike in May was expected, its aggressive approach elevated recessionary fears in the U.S. Combined with the ongoing war in Russia and Ukraine and rising U.S. Treasury yields and investor risk aversion, this elevated the expectation of another aggressive fed funds rate hike and resulted in U.S. stocks (S&P500) to tumble by around 10% between 8 and 14 June. The federal funds increase duly followed on June 15, followed by another 75-basis points increase on July 27 2022. This massive policy rate increase between May and July resulted in the net foreign sale of South African shares and bonds to skyrocket to almost -R80bn over that period. It also led to the ALSI yielding the 15th and 12th worst-performing weeks on June 10 and July 15, respectively. The fallout from the U.S. Fed's inability to control inflation was to worsen as two more 75 basis point federal funds rate hikes followed in September and November 2022. As a result, stock markets experienced more massive losses, with September being the second largest loss on the S&P500 between 2010 and 2022, while the JSE experienced the sixth worst month over that period, including the 11th largest weekly loss during the September rate increase, while foreigners again sold a net amount of almost -R58bn over the last four months of 2022.

As is often the case with significant losses driven by investor fear and irrationality, the volatile rollercoaster rides that markets as the JSE experienced due to U.S. monetary policy decisions in 2022 also offered investors an opportunity to soon benefit from a market bounce back. Examples of the JSE include the ALSI, which yielded two of its top 20 most significant weekly gains within a week or so after the massive losses in May and July 2022.

Although the Federal Reserve continued with its anti-inflationary policy throughout the rest of 2022 and into 2023, inflation fears gradually started to subside as better-than-expected U.S. inflation figures came out in early November 2022. This inflationary ‘green shoot’ resulted in weekly returns for November 11 ranked in the top ten weekly gains in both the U.S. and S.A., while the ALSI monthly return of 12% for November was the second largest since 2010.

China

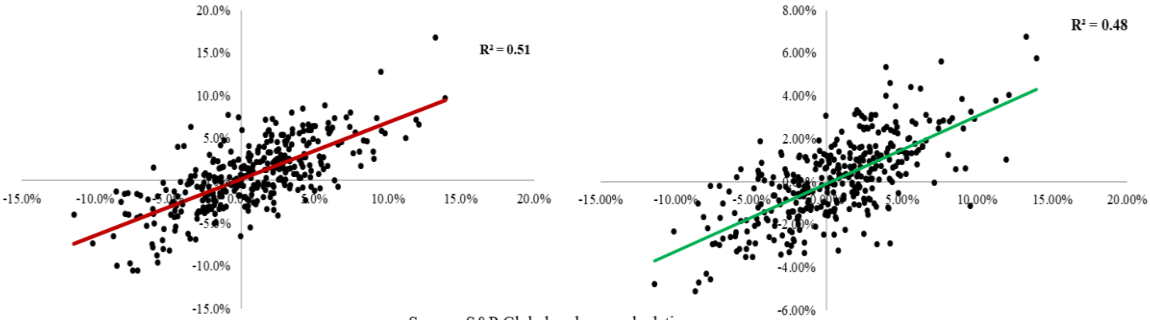
In 2015, China overtook the U.S. as the world's largest economy based on purchasing power parity. This ushered in a new era of power struggle between the world's two superpowers and would cause severe market uncertainty in the years to come. One of the first significant bouts of uncertainty started in mid-June 2015 as the Chinese economy was slowing down due to various reasons, including deleveraging, an oil price slump and a shift away from exports and redundant investments towards more sustainable growth based on consumer spending (Klein & Fisher, 2015). The result of this was that both the Shanghai Stock Exchange Composite Index (SSE) and Shanghai Shenzhen CSI 300 Index (CSI300) lost more than 40% of their value between June and September 2015, with both experiencing weekly losses above -10% on three occasions – the worst three performances on these exchanges for the period Jan 2010-Dec 2022. Initial losses in China during June and July were ignored by the U.S. and South African markets, but a subsequent market slump of around -20% during the last two weeks of August was not. It caused the S&P500 to fall by about -11.70% and JSE ALSI by -6.5% between 18 and 24 August 2015, but also initiated a so-called "flash-crash" on August 24, when the S&P500 fell by 5% within a few minutes before ending at -3.7% for the day (ALSI was at -2.8%), making it the worst trading day in the U.S. since the 2008 crisis (Liu, 2020). The uncertainty regarding China's growth prospects remained during the rest of 2015 and culminated in two more periods of market uncertainty and loss in the U.S. and the JSE during the first eight days of December 2015 and January 2016, respectively. This resulted in losses on the JSE ALSI of -4.56% and -5.11% for those two weeks, with the January 2016 weekly loss being the eighth largest in both the U.S. and S.A. for Jan 2010 – Dec 2022.

Between 2013 and 2020, the influence of China on South Africa's share market performance was dominated by three main forces. First, on a microeconomic front, the impact that the technology- and entertainment-focused holding company Tencent Holdings Limited has had via its majority shareholding by the South African behemoth company Naspers Limited. Secondly, on a more macroeconomic front, Chinese growth has influenced South African export dynamics and commodity prices. Thirdly, on a geopolitical front, the growing trade war between China and the U.S. affected not only the JSE in South Africa but also equity markets around the globe.

The Naspers and Tencent effect

From a microeconomic perspective, the role that the Chinese behemoth Tencent Holdings Limited (Tencent for short) played on the value of Naspers Limited and the overall level of the ALSI is undeniable. Naspers originally bought the majority stake in Tencent in 2001, and although this percentage shrank over time, it still owned around a third of Tencent when its value started multiplying from 2013 onwards. The link between Tencent and Naspers returns was solid between 2013 and 2020, with a correlation of around 0.71 (Figure 8.1).

Figure 8.1: Naspers versus Tencent (Jan 2013-Sep 2019) Figure 8.2: Naspers versus ALSI (Jan 2013-Sept 2019)



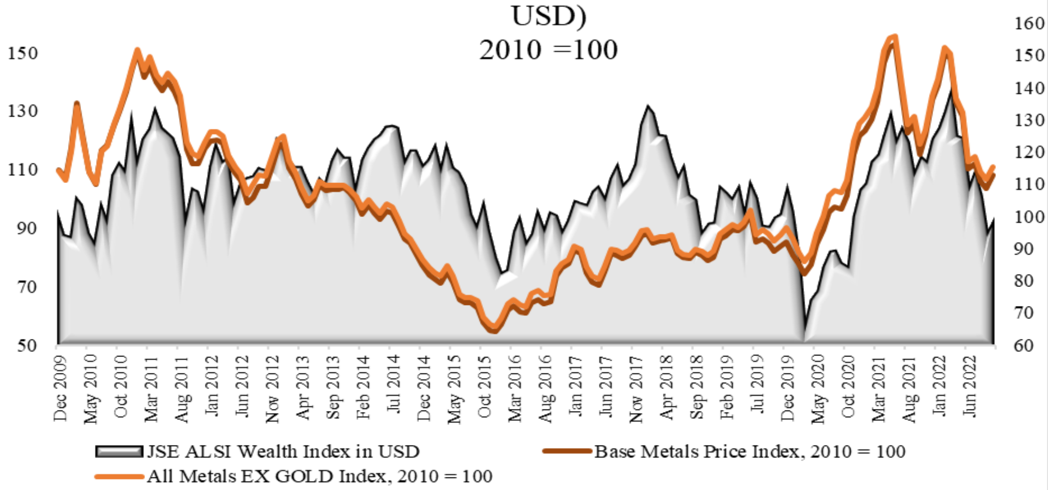
Source: S&P Global and own calculations

Between 2015 and 2019, Naspers increasingly dominated the JSE ALSI index weighting, growing from 10% to 20%, which explains the high correlation of around 0.70 between Naspers and the ALSI over this period (Figure 8.2). The astronomic growth of Naspers' share price was a major supporting factor for returns on the JSE, and it limited the massive market downturn experienced by the ALSI between January 2013 and Dec 2015 and even between 2015 and 2020 (EIM, 2020). On a more event-specific short-term basis, events in China, and by implication Tencent, also caused several weekly periods of top gains and losses on the JSE. For instance, the ALSI's 5.35% gain for the week ending December 24 2015, made it the ninth largest weekly gain for 2010-2020. This gain was due to a reprieve in negative market sentiment regarding China between 12 and 24 December 2015, which resulted in a 7% recovery in the Shanghai indices and a recovery of 8% in Naspers. Similarly, a severe downturn in China, Tencent and Naspers caused the eighth largest loss on the ALSI in the second week of January, while it was again these factors that caused the opposite to happen during the first week of March, with the ALSI recording its eighth most significant weekly return of 5.61% for the 2010-2020 period.

China's effect on global commodity markets

From a macroeconomic perspective, China's role in affecting commodity prices and the overall level of the JSE ALSI is also undeniable. South Africa's main exports mainly consist of precious metals like gold and platinum, ores and related products like iron and steel, and minerals and resources like coal. During the 2013-2022 period, the percentage of these products exported to China has grown significantly, with China becoming the major export country for South Africa. China's astronomic growth over this period dominated global demand for commodities, which led to a massive increase in South African exports of gold, platinum, iron ore and coal to China, especially since 2014. China's insatiable demand for these commodities led to several commodity boom periods since the GFC and, as a result, significantly influenced the ALSI due to the performance of JSE-listed primary material companies, which, even in 2023, still dominate the composition and performance of the ALSI with an almost 30% weighting (see Figure 9).

Figure 9 : ALSI (in USD) versus Commodity metal prices (in USD)
2010 =100



Base Metals: Aluminum, Cobalt, Copper, Iron Ore, Lead, Molybdenum, Nickel, Tin, Uranium and Zinc
All Metals ex Gold: All base metals and only Silver, Palladium & Platinum

Source: International Monetary Fund

As indicated in Figure 9 above, the performance of the ALSI since 2013 has left much to be desired, and if not for China's significant import propensity for commodities from South Africa and the Tencent/Naspers effect, the overall performance of the JSE would have been significantly worse over this period. Although China had a net positive effect on the JSE's performance over the long run, it also caused some of the most turbulent periods over the short run. As described in the next section, this is especially true when the U.S. is also involved, and the most recent example of this is the trade war dynamics that persisted between these countries since 2018.

Trade war between the U.S. and China

The United States' high propensity to import Chinese goods has caused the U.S. trade deficit with China to exceed $200bn since 2005 and gradually increase till it exceeded $400bn in 2018. As part of his successful presidential campaign in 2016, Donald Trump used a trade protectionism strategy and vowed to improve U.S. employment rates by countering China's unfair trade practices. Once elected, Trump immediately focused on plans for tighter tariffs, anti-dumping measures on imports from China, and a review of the U.S. trade deficit and its causes. After little trade agreement success, several U.S. import tariffs were imposed on China in early 2018, which snowballed as China retaliated with similar tariffs on U.S. imports from April. This impasse caused the S&P500 and Dow Jones to fall by more than 2.2%, leading to several bouts of tariff counterpunching between these countries over the following months. The resulting market uncertainty often caused stock market turmoil, including during May 2019, when the U.S. and Chinese markets fell by more than 6%, and the JSE ALSI followed suit by -5.5%. The losses in May again proved to be an overreaction, and, as a result, the U.S. markets experienced the best returns for June since 1930 for the Dow Jones and since 1955 for the S&P500 (Imbert, 2019). Despite the stock market recovery and an agreement at a G20 meeting in June 2019 to renew trade talks, the U.S. markets again fell by almost 3% on two occasions during August 2019 due to another about of tariff hikes. Sanity seemed to prevail in January 2020 when both sides signed a trade deal in which China committed to buy more U.S. exports, but this deal did not fully materialize, and thus, relations did not significantly improve, even after Joe Biden became President.

The ongoing trade war between China and the United States signals that the battle for global leadership between the dragon and the eagle will stretch further into the following decades. China is also the second-largest holder of U.S. debt, which gives it leverage since any major U.S. debt divestment could slow America's economic growth through higher interest rates and potentially more expensive consumer goods in the U.S.

Brexit

On June 23 2016, amid a mass refugee crisis in Europe and furious debate over migration, Britons voted, by a narrow 52 to 48 per cent margin, in favour of a "British exit" or "Brexit" from the European Union. This vote outcome was met with initial market uncertainty, causing the British pound to depreciate more than 10%, while European stock market indices like the German Dax, French CAC40, and European STXE600 lost more than 7% on the 24th. In the U.S. and South Africa, the S&P500 and ALSI fell by -3.60% on Friday, June 24, followed by another -1.81% in the U.S. and -3.1% in S.A. the following Monday. Since these two days fall in two different weeks, this Brexit event does not reflect as one of the top twenty worst weeks in terms of weekly returns in either the U.S. or South Africa. Furthermore, since the market recovery in the subsequent few days negated most of the initial losses in the US, June 2016 is also not recorded as one of the top 20 worst months in the U.S., while it barely makes the list at 19 for S.A.

The Covid-19 period

The coronavirus had a profound impact on the global economy, leading to various policy response measures. With infections climbing exponentially in the United States, Europe and other markets, stock market returns in those countries tumbled in the opposite direction as supply chains and global trade were in disarray (WEF, 2020). Many economies in Africa, including South Africa, were suffering from a toxic combination of tumbling oil and commodity prices, the prospect of a global recession, and weakening currencies, making servicing of external debt more expensive.

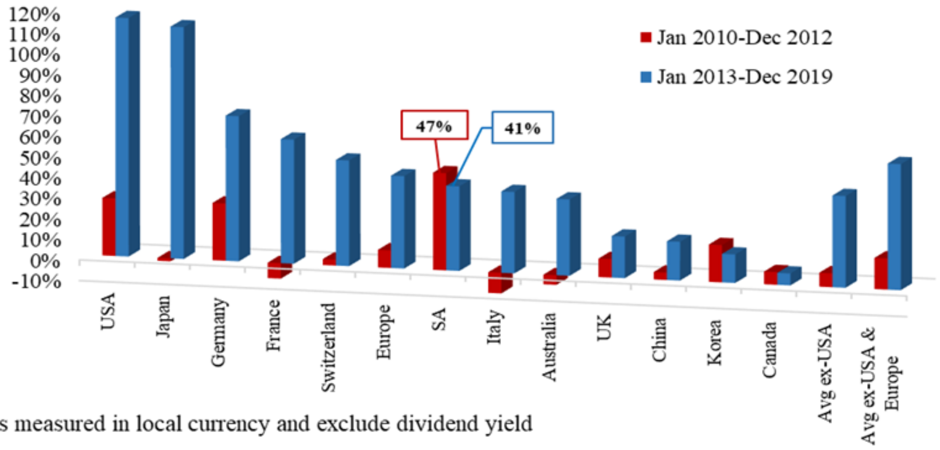
Since February 21 2020, the stock market reaction to the crisis has become extraordinarily damaging around the globe, with markets in the U.S. falling by more than 13% between 21 and 28 February, while the ALSI fell by more than 12%. These losses made the trading week ending February 28 the worst week since 2010 in both countries and February the worst month since 2008. The markets reacted even more severely when the World Health Organisation (WHO) declared Covid-19 a global pandemic on March 11. The S&P500 fell by -14.5% between 11 and 12 March, while the ALSI fell by -10.5%. This caused the trading weeks ending 13 and 20 March to become the first and third worst weekly losses in the U.S. and S.A. since 2010 and the monthly loss of around -12.5% in both countries to be the new worst performing month since 2008. South Africa's sovereign credit spread also more than doubled to 448 basis points, and by the end of March, the rand had depreciated by around 24% against the U.S. dollar (IMF, 2020). Net capital outflows from the net sale of bonds and equities by foreigners amounted to -R66 billion during February and March 2020, and by October, more than -R199 billion had left South Africa.

Fortunately, the impact of COVID-19 on the South African and other stock markets was short-lived and of no significant long-term impact, as it was followed by a swift recovery (Takyi & Bentum-Enin, 2020). This is confirmed by very high weekly returns during the week of March 27, which was the sixth largest gain since 2010 and followed by the weeks of April 9, June 6 and November 6, which respectively took positions three, two and one in terms of most significant weekly gains since 2010. Contrary to a multi-year downward trend, JSE-listed companies raised equity capital to R65.2bn in the first eleven months of 2020, which was double the same amount in 2019. This was attributed to the need for funding because of the impact of COVID-19 on actual economic activity (SARB, 2020).

South African Economic and Political Developments Since the Post-Global Financial Crisis Period 2010-2022

After the U.S. fiscal deficit and 'taper tantrum' issues of 2013, markets in most parts of the world started gaining real momentum. Between January 2013 and December 2019, returns in the U.S. and many other markets far exceeded returns made between 2010 and December 2012 (Figure 10). In stark contrast, South African share market performance over the same period was quite dismal as the overall index (ALSI) performance of about 40% was not much different from that of the 2010-2012 period. Some form of market performance disconnects occurred between developed markets like the U.S. and South Africa during this period.

Figure 10: Stock market returns for periods 2010-2012 and 2013-2019*



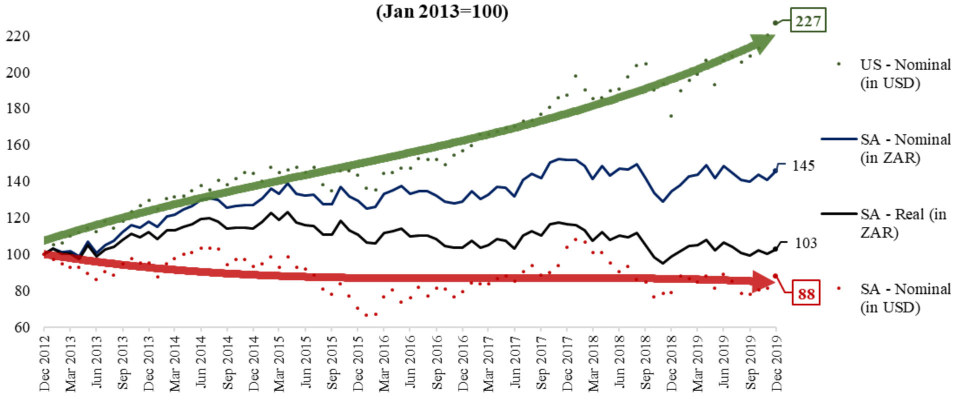
*Returns measured in local currency and exclude dividend yield

Source: S&P Global and own calculations

The disconnect between global stock market performance and the JSE (2013-2020)

Compared to the U.S., where the S&P500 averaged an annual return of around 11.6% for Jan 2013 - Dec 2020, the JSE delivered much lower average growth of around 5% in rand terms. The growth was barely above inflation, and if measured in dollar terms, JSE returns amounted to an annual average of about -1.5% over this period, which would have made foreign investors poorer if they invested in the ALSI over that period (see Figure 11).

Figure 11: US versus SA equity perfromance Jan 2013- Dec 2019
(Jan 2013=100)

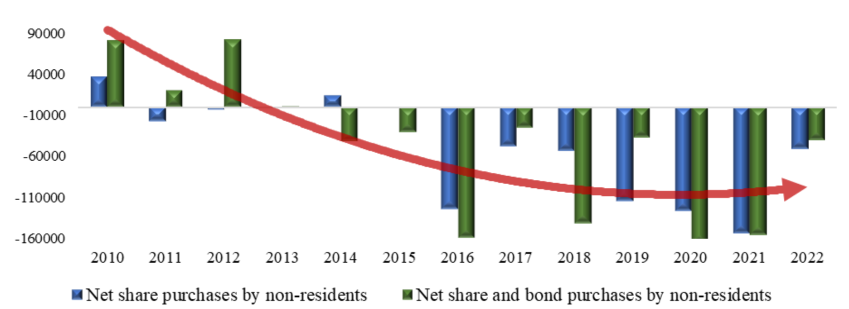


* US = S&P500; SA = ALSI. Wealth index values exclude dividend reinvestment calculations

Source: S&P Global and own calculations

The problem started as far back as 2011 when uncertainty regarding future growth prospects for South African companies started to emerge among foreign investors, and net equity sales by non-residents totalling R17 billion were recorded that year. This uncertainty prevailed in the years that followed and, combined with a continual negative return in dollar terms since 2013, explains why foreign investors have been divesting from South African shares and bonds. As shown in Figure 12, this trend of net equity and bond sales by foreigners has continued since 2011 and provides partial evidence of how South Africa is experiencing a growing amount of capital outflow.

Figure 12: Net share and bond purchases in SA by non-residents (2010-2022)



Source: South African Reserve Bank

The lacklustre performance of the JSE and capital outflow also explains why JSE-listed companies' willingness (or ability) to raise capital in local and international markets has been dwindling, especially since 2015 (see Figure 13).

Figure 13.1: Share capital raised by JSE listed companies (2000-2009)

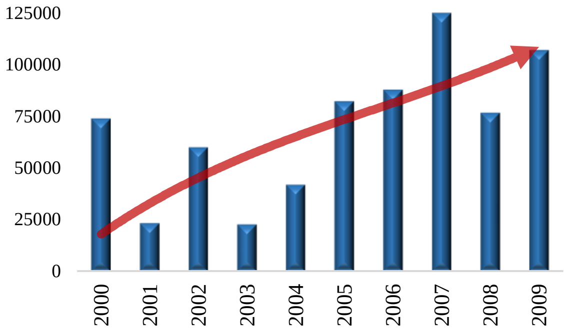
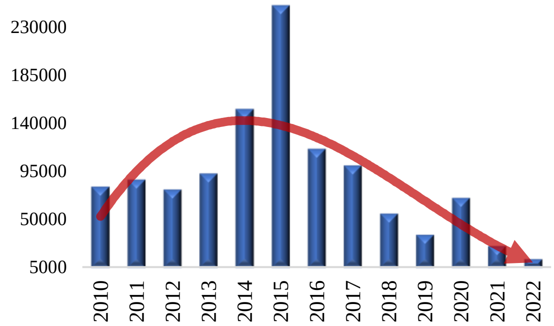


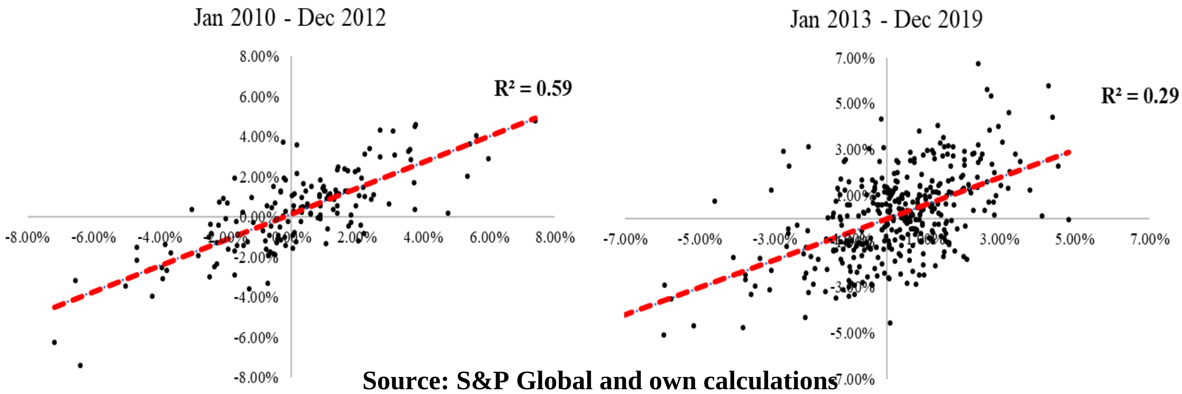
Figure 13.2: Share capital raised by JSE-listed companies (2010-2022)



Source: South African Reserve bank

Compared to the USA, the JSE reflects different fundamentals for South Africa since 2013. This is reflected in the markedly lower correlation between the share market returns of these two countries (see Figure 14). Since the 2013-2019 period was a very positive bull market period in the U.S. and other parts of the globe, the lower correlation reflects some structural problems in South Africa that prevented the JSE from following the bullish trend. Unfortunately, this low correlation during 'good times' did not mean South Africa was detached from periods of global turmoil, and when such periods returned in 2018, 2020 and 2022, the JSE was again severely affected.

Figure 14: Weekly returns in the U.S. (S&P500) and South Africa (ALSI) 2010-2013 versus 2013-2020



Source: S&P Global and own calculations

The most prominent reason for the JSE's growth detachment from the developed world is the S.A. government's inability to combat corruption and 'state capture' within its ranks and to alleviate structural problems due to insufficient energy supply.

State Capture and Eskom woes in South Africa

Thabo Mbeki was replaced by Jacob Zuma as President after the 2009 elections, and the country was soon in a new direction and on a new economic plan, the National Development Plan (NDP). In the first five years of Zuma's presidency, the number of government employees increased considerably (from 2.2 million to 2.7 million), and the government's wage bill increased much more than inflation. The Zuma years were marked by what has become known as state capture, corruption, the appointment of political cronies, mismanagement of State-Owned Enterprises (SOEs), a failure in service delivery, and the demise of the national electricity supplier (Eskom) (Chetty, 2021).

Since state capture was a gradual and prolonged process, its effect was not reflected in market movements on the JSE, although some exceptions did occur. The most prominent example occurred on December 9, 2015, when an ANC backbencher, Des van Rooyen, was appointed as the finance minister replacement for Nhlanhla Nene (Nenegate). During a few days, the rand rapidly weakened, passing the R15 to the dollar mark, yields on government bonds increased by more than 100 basis points, and the JSE share market lost more than 3% on 10 and 11 December. After intense pressure, then-president Jacob Zuma rescinded his appointment and appointed Pravin

Gordhan to control the nation's purse strings, which caused an immediate recovery of the JSE on 15-17 December. Overall, the effect of this scandal on JSE performance was relatively minimal, although the longer-term repercussion for the economy was not (The Conversation, 2017; Politicsweb, 2019). Similarly, other major socio-political events like the Marikana massacre in August 2012 and the July 2021 riots following Jacob Zuma's arrest did not affect the JSE ALSI's daily, weekly or monthly performance much.

The cost of State Capture is estimated to be around R1.5 trillion over the second term of the Jacob Zuma administration and is estimated to have wiped out a third of South Africa's R4.9 trillion gross domestic product. Amongst many, the costs included R252 billion in lost budget, R67 billion more debt service costs, R90 billion lost in tax revenue collection and at least R200 billion overspent on Eskom's Medupi and Kusile coal power stations that were not only over budget but also overdue in completion (Daily Maverick, 2019).

In terms of Eskom, insufficient government planning, lack of infrastructural maintenance, loss of professional skills and a gradual increase in corruption have resulted in a procedure called "load shedding", which is the regular and deliberate shutdown of the electricity distribution network to avoid an entire collapse of the power grid, to start in 2007. Loadshedding gradually increased, especially in 2015 and again from 2019 onwards, and it has resulted in many billions of rand in lost output, with the effect of load shedding in 2007, 2015 and 2019 effectively being equivalent to the impact that the GFC had on GDP growth in South Africa (Nova Economics, 2020). Since 2007, Eskom's profitability has been declining, and by December 2020, Eskom's debt had grown to almost 500bn, which it would never be able to repay from operations. Although the South African economy has been suffering severely from insufficient power supply, the effects thereof on the JSE's performance are more subtle for two reasons. First, the effect is only gradually reflected in individual share price movements as new financial statement releases are published. Secondly, a crucial insulating factor for JSE performance is that about half the value of shares listed on the ALSI is derived from overseas operations (Lerche, 2023). The continued lack of sufficient power supply will, however, result in a decline in confidence from foreign and local investors and will challenge the existence of the JSE as more companies follow the delisting trend that started a few years ago.

State capture, load shedding, poor service delivery, low economic growth, high unemployment, and higher poverty levels have diminished South Africa's growth potential but also resulted in the demise of support of the ANC government, which could lead to further socio-political unrest and socio-economic fallout. Except for the above-listed issues, a significant reason for South Africa's declining growth pattern is the lack of a realistic and workable economic growth strategy that will garner sufficient buy-in and support from the private sector.

Consistently disappointing economic growth initiatives

Since 2005, the ANC has intended to direct South Africa to a democratic developmental state, where the state plays a significant role in investing in underdeveloped areas and directing private investment, but also addresses the skewed pattern of ownership and production. This was to be achieved through an active industrial growth policy and the simultaneous implementation of policies to redistribute income. However, Fine (2010) states that corruption and policies that simultaneously try to effect economic growth and income redistribution have restricted the effectiveness of the developmental state efforts.

To address poverty and inequality, two strategy documents, the 2010 NGP and the 2012 NDP, were introduced (Hendriks, 2013). The NDP sought to reduce poverty, unemployment, and inequality, while the NGP sought to enhance growth and create employment and equity. Both emphasized a robust developmental state orientation (Zarenda, 2013). Nelson (2016) states that although the NDP envisaged implementing a developmental state strategy for South Africa, the implied additional state intervention did not mean socialism or the absence of economic liberalism. The strategy required extensive state powers to influence the economic, political, and social levels within a democratic dispensation and a capitalist system. The ANC's initial commitment to socialistic reform and restructuring of society, with a dynamic role for the state in the economy, was eventually replaced by economic initiatives grounded in neoliberal capitalism (Williams & Taylor, 2000). Neoliberalism increasingly influenced the ANC's economic policies in shifting away from the Freedom Charter. Factors contributing to this included the collapse of many communist economies and continued pressure on the ANC elite by big business and the S.A. press to endorse capitalism and the neoliberal ideology.

In December 2020, the National Policy Development Framework (NDPF) was launched. The objective of this framework was to combat the adverse effects of COVID-19 and advance the ideals of the NDP to enhance the establishment of a developmental state. By 2020, an average economic growth rate of 1.1 per cent was recorded for the period 2010 to 2020 for South Africa, with a continuing downward trend over the same period, while unemployment and inequality kept increasing over the same period.

Conclusion

In this article, we examine the impact of major global economic and political events on stock market returns in South Africa in the years following the global financial crisis up to December 2022. An event study methodology establishes whether the top 20 best and worst weekly return periods on the JSE all share index (ALSI) coincided with local and international political, economic and other events like COVID-19. We find that COVID-19 had a massive simultaneous effect on markets globally but was only short-term, with multiple periods of subsequent positive rebound globally and on the JSE. Regarding economic factors, the ALSI's performance was significantly influenced by fiscal and monetary policy issues in the U.S., Chinese economic growth and resultant commodity price booms, and severe geopolitical frictions caused by a trade war between the U.S. and China. We find that hawkish U.S. monetary policy often affected the JSE negatively, while dovish policy was less influential. China's influence on the ALSI was generally positive due to its role in causing multiple periods of elevated commodity prices and the combined effect that the astronomical growth of Chinese company Tencent Limited had on Naspers and ALSI. The effect of U.S./China trade war dynamics was also significant for domestic and global markets. Adverse international events dominated the ALSI's performance, with positive effects usually resulting from subsequent market rebounds. The study concludes that although the JSE clearly and immediately reflected global macroeconomic and political changes, it responded little, or for long, to local developments. However, these domestic political and structural deficiencies caused a disconnect between share market performance in South Africa and the developed world. This prevented South African shares from enjoying similar bull market gains as the developed world between 2013 and 2022 and ultimately contributed to poor local share market performance, reduced foreign investor confidence and increased capital outflows.

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