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NEWSLETTER

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November elections bring local & global politics into focus

The coming months will be shaped by several important policy developments, both locally and internationally. In South Africa, inflation is likely to rise before moderating, while the evolving political landscape could influence the pace of economic reform. In the US, the outcome of the midterm elections will determine the Trump administration's ability to implement its fiscal agenda.

South Africa's inflation outlook

The South African Reserve Bank (SARB) increased the repo rate by 25 basis points to 7.25% in September, following the 4.4% headline inflation reading for August. Food inflation remains particularly benign at just 0.7%, highlighting the absence of meaningful food-price pressure at present.

The near-term outlook, however, is less favourable. Kevin Lings, chief economist at Stanlib, expects inflation to rise above 5% over the coming months, driven initially by higher fuel prices, with further petrol and diesel increases still to feed through into the data. Food inflation is also expected to rise substantially from its low levels as the effects of El Niño potentially affect agricultural production, with Lings forecasting food inflation to rise to around 6% by the middle of next year.

As a result, local inflation is expected get worse before it gets better. The important distinction is between temporary factors pushing headline inflation higher and the underlying inflation trend.

Over the longer term, inflation is expected to moderate significantly on the back of positive base effects, with Lings expecting an inflation reading of 3.1% by the end of next year. If oil prices subsequently moderate towards approximately US$85 per barrel, the comparison with elevated fuel prices in the preceding year could create a substantial disinflationary effect.

Local & Global Elections take centre stage

South Africa's November 2026 local government elections will provide another important indication of the country's evolving political landscape. With the ANC having lost its outright national majority in 2024, the elections will also be watched as a potential indicator of the direction of national politics ahead of 2029, as well as the implications for investor sentiment and the rand.

Historically, elections have tended to have a limited and largely short-term impact on the currency. While changes in political sentiment can cause movements in the rand around election periods, these tend to be less durable when they are not accompanied by meaningful changes in South Africa's underlying economic and fiscal fundamentals. Ultimately, the longer-term direction of the currency is likely to be driven more by economic policy, reform progress and global market conditions than by the election result itself.

Coalition politics is likely to remain an important feature of the political landscape. While coalitions can broaden representation and potentially increase pressure for accountability and reform, unstable coalitions can make it more difficult to approve budgets, maintain infrastructure and deliver basic services. The 2021 local elections resulted in 66 hung municipalities, illustrating how widespread coalition governance has already become.

The longer-term trend is also important. The ANC's share of the vote has declined over successive elections, culminating in 40.2% in the 2024 national election.

Inflation Outlook

- Headline inflation at 4.4%
- Repo rate now at 7.25%
- Fuel and food pressures could increase
- Inflation expected to moderate longer term

November Local Elections

- Local government elections in November 2026
- Coalition politics remains important
- Short-term rand volatility possible
- Economic fundamentals remain key
- stability will influence reform progress

Structural Reform

- Fiscal consolidation remains important
- Infrastructure investment remains a priority
- Private-sector participation supports reform
- Operation Vulindlela remains a key initiative

US Midterms

- Midterm elections take place in November
- Congressional balance will be determined
- Fiscal-policy flexibility could change
- Legislative scope depends on congressional control

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Local & Global Elections take centre stage- Continued

The local elections could therefore provide a leading indicator for the 2029 national election, although turnout and voter participation will remain important variables.

More important is the progress of structural economic reform, including fiscal consolidation, infrastructure investment, private-sector participation and initiatives such as Operation Vulindlela. Successful reforms could improve productivity, reduce structural inflationary pressures and raise South Africa's longer-term growth potential.

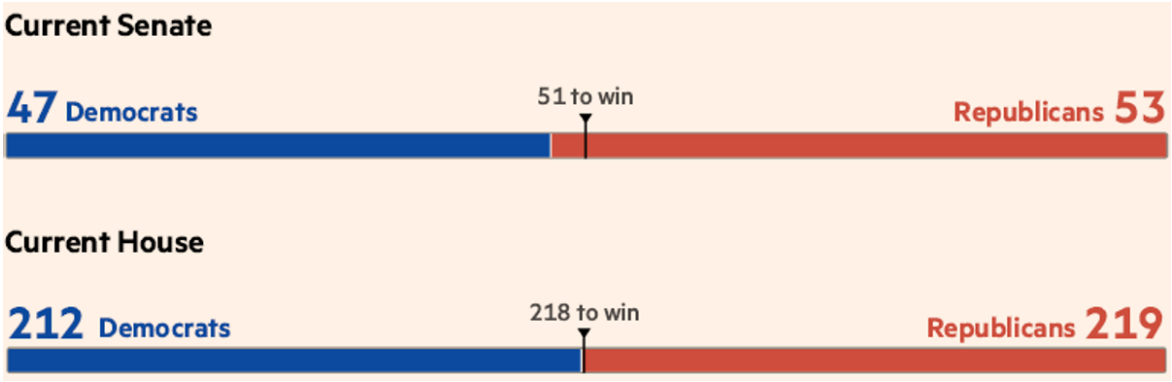
The economic significance of the elections will therefore depend less on the headline result and more on whether the resulting political environment supports policy stability and meaningful economic reform.

US midterm elections and fiscal policy

The November US midterm elections will determine how much legislative freedom the Trump administration has during the second half of its term.

The US Congress consists of the House of Representatives and the Senate. The House has 435 members, allocated according to population, while the Senate has 100 members, with two Senators representing each state. Both chambers generally need to approve the same legislation before it can become law. The House normally operates on a simple-majority basis, while Senate rules mean that most legislation requires 60 votes to overcome a filibuster and proceed to a final vote.

The outcome will therefore determine the administration's ability to implement its fiscal agenda.



A **Republican Senate and Democratic House** would create a divided Congress, making significant new legislation and large spending programmes more difficult to pass. Fiscal policy would likely face greater legislative constraints.

If **Republicans control both chambers**, the administration would have greater scope to implement its agenda, including potentially passing another large reconciliation package. This could provide greater room for tax cuts, higher government spending and other fiscal measures without requiring bipartisan support.

Conversely, **Democratic control of both chambers** would make major legislation and spending initiatives considerably more difficult to pass. The administration could instead rely more heavily on executive action where congressional approval is not required.

The key issue is therefore the degree of fiscal and legislative freedom available to the administration. The election result will help determine whether the following two years are characterised by greater scope for fiscal expansion, legislative gridlock or greater reliance on executive action.

Sources: Stanlib Asset Management, Econometrix, Financial Times

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