‘Classic Business’ - ‘The Week That Was’ - transcript 6 Nov 2026, with Michael Avery

**Michael Avery:**

Well, ‘democracy’ has had a rather expensive week. Americans voted blue, and Wall Street bled red, with the Nasdaq suffering its worst day since Trump’s ‘Liberation Day’ tariffs. Here at home, the ANC appears headed for one of its worst electoral drubbings since the dawn of democracy. But the real contest now moves from the ballot box to the coalition negotiating table. And hovering over all of this is South Africa's increasingly uncomfortable relationship with Washington. Warwick Lucas, Private Clients Portfolio Manager at Vunani, and Professor Raymond Parsons from the North-West University Business School and the University of the Western Cape now join us for ‘The Week That Was’’.

Warwick, welcome! The Nasdaq shed 5.5% yesterday. The semi-index collapsed 12%. $2.5 trillion was wiped off the Nasdaq 100. And we've been discussing this uncomfortable arithmetic behind the AI investment boom for weeks now. Has the Democratic sweep genuinely changed the earnings outlook, or has politics simply provided the excuse for a long-overdue correction in valuations?

**Warwick Lucas:**

Hi Michael, and to the listeners. To be honest, that politics has acted as the catalyst for a correction that really was becoming quite plausible. For quite some time we've had the market nose, or the AI nose getting pushed hard against a firm glass pane of very high, expensive bond rates. And the Democratic victory hasn't changed the revenues or earnings of Nvidia or Broadcom or Microsoft.

What it has changed is the perceived certainty around the enormous infrastructure spending underpinning all the forecasts for those companies. For months markets have behaved as though hundreds of billions of data centre expenditure were a ‘slam dunk’. But all of those projects need electricity and water and planning permission, finance and political support and acceptance. And, yes, the US election, of course, tosses a whole lot of assumptions into the blender.

So, the valuation question that's been up for discussion repeatedly - all of them are dependent on tremendous levels of growth and very expensive capital, which, between the two of them, makes for very little room for disappointment.

Look, the selling has been quite indiscriminate. So, a semiconductor company with a very strong balance sheet is not financially equivalent to a massively ‘leveraged’ data centre developer – but yet all have been punished almost equally and indiscriminately. So, at the end of the day I don't think there's evidence that the AI revolution is ending in any way. But what has happened is the political ‘shock’ has pulled the trigger, but really valuation and capital intensity loaded the gun.

**Michael Avery:**

Yes, it certainly did. And that, to me, is the fascinating contradiction as well, Raymond. Because Americans are increasingly rebelling, as Warwick said, against data centers consuming these vast quantities of electricity and water and public infrastructure, while investors have treated their construction as an economic certainty, almost. But UBS reckons now around 30% of planned US data center capacity additions for 2028 could be at risk. Surely the Democrats won't cede US tech leadership to China based on the NIMBYs?

**Raymond Parsons:**

Hi Michael. Let me say at the outset that, if you look at the big picture around the outcome of the US midterm elections this week and what they emphasized - in a number of issues they converged around US voters' concerns basically about affordability and accountability. And so one of the major factors here was clearly the issue of the data centres and AI, which merged into the election agenda.

So, at the moment, from a distance it seems that the US is going through a sort of ‘schizophrenia phase’ about AI. They are responding to understandable concerns about the data centres and AI on the one hand, while also wanting to keep an eye on the need for tech leadership on the other. So, one of the major outcomes that seems to be obvious at the moment is that there will eventually be ‘horse trading’ on the subject after the US Congress meets again on the 3rd of January. And we'll probably see some very pragmatic solutions as to how to deal with the data centres and AI, as it clearly become a very important concern there.

But I would just mention, in this regard, that we're not talking here about the ‘Westminster political model’ - we’re dealing with the US ‘federal’ political model. And so, the regulation of the data centres there actually lies very much in the hands of the governors of the various states. So, there’s flexibility and we'll see what decisions they take in the meantime - given this new wave of political reaction on data centres and so forth. So, I what we're really now saying around AI and data centres is that the US has entered a new phase of uncertainty here, until certain decisions are taken at different levels.

Michael Avery:

And I think that's the point, in that these data centres could still be built in states where governors look upon it more favourably. Maybe in Nevada, where we've got more land, and there isn't such pushback from the NIMBYs. So it raises the question of whether it will have the impact UBS reckons it could: 30% of planned US data centre capacity could be at risk.

Warwick, what we saw with CoreWeave's five-year credit default swap spread is fascinating. Blown out nearly 12.7%. An extraordinary price for insuring against default. Is there a risk here that this could migrate from an equity valuation problem into a credit problem. And where do you see the JSE, the rand, and emerging-market

assets fitting if leveraged investors are forced to start unwinding their positions in this trade?

**Warwick Lucas:**

I think it's probably a much more important an issue than just pure equity-market losses that we saw yesterday. A five-year protection at 12.5% is a massive amount - it’s a very high level of credit concern. But, of course, CoreWeave is particularly interesting because it's really at the highly leveraged end of the AI infrastructure boom, with enormous borrowings to buy compute against future revenues.

So, the economics depend on those facilities being completed, utilized, and generating cash to service the debt. And of course, the issue is not just the amounts, but the speed or velocity that they come through. Because if projects are delayed, first of all, financing costs continue while the revenue is postponed. And graphics processors aren't like land. They obviously age rather quickly.

So, it's the credit markets really asking a different question from the equity market. Not just whether the AI revenues will grow, because they will. We know that this kind of technological development will continue. It may just have a different pace. But can the borrowers survive until those revenues arrive? And that's a very different question.

For emerging markets, what's the question or concern? The concern really is contagion more than anything else. If leveraged investors face margin calls or credit losses, they'll obviously sell assets somewhere to raise cash, and they can get quite indiscriminate about it - if the wrong books are involved or there are insufficient surpluses elsewhere.

So yes, from that point of view emerging markets and South Africa and so on are potentially vulnerable through random portfolio flows. The same issue might arise around precious metals and so on.

So yes - an equity correction becomes a more serious event indeed if you get credit contraction coming through that is forced. The degree of it is still up for discussion. I suppose the question is, how much of the holdings we're seeing in the States are quality tech with underpinned earnings versus ‘rubbish’ that's going to get vaporized against the first bit of ‘real heat in the kitchen’?

**Michael Avery:**

Well, that's going to be interesting to watch over the coming weeks! Raymond, from one political repudiation to another - the CSIR projects the ANC at roughly 31.7% nationally. We still don't have the final results, so we're using the projections. That's down from 45.6% in 2021, so effectively a 15% decline. While the DA is sitting around 26%, that's about a 5% gain. It's an extraordinary erosion of ANC support. The DA hasn't, though, captured anything like the equivalent shares of those departing voters. What's your take from the local government elections?

**Raymond Parsons:**

Michael, I would initially have three broad major takeaways from an economic standpoint.

First, the shifting political landscape we've seen in these local elections reinforces the broken political mould in ways that continue what we saw in the results of the 2024 general elections.

Second, we've got to brace ourselves for heightened coalition complexities over the next two weeks, as intense 'horse trading' takes place, which will be a tense period of opportunity and uncertainty. And there will be a real test of whether there is mature political leadership to get the best arrangements in a very changed set of political dynamics. I'm hoping for less partisanship and more progress by the end of the next two weeks.

But thirdly, and importantly, business cannot be a passive bystander now. It will have an opportunity soon to engage with the new political leadership that will emerge over the next few weeks or months - and to hold it accountable for the commitments that it's made to have better governance and better service delivery. So business must now shape its advocacy and its lobbying to accommodate and influence the new political landscape that's unfolding. It must also participate in helping to get the better outcomes at the coalface that we're all hoping will emerge from these political outcomes.

**Michael Avery:**

It does indeed all hinge on those coalition discussions. And the really interesting results, obviously, are in Gauteng, where the DA is projected to lead in Johannesburg and Ekurhuleni. And Tshwane is very close as well, but without outright majorities, obviously. The big surprise for me has been ActionSA and, you know, obviously very abrasive leadership there in Herman Mashaba, who has a visceral dislike of Helen Zille and the DA.

It suddenly becomes enormously influential. Or does he? We've spoken before about the need for coalition-management legislation before. I wish we had 30 days. The Coalition Bill, introduced in Parliament in August, would have shifted that period to negotiate a deal from 14 to 30 days, but it hasn't yet passed into law. So that's what we've now got - we've got 14 days. What would you like to see in those coalition agreements? What should be non-negotiable in those agreements, Raymond?

**Raymond Parsons:**

I would rather not emphasize what is 'non-negotiable' - but rather say what stakeholders, such as business, would like to see in whatever coalition agreements are indeed arrived at soon. Certainly, we must hope that we will have learnt from the failed coalition agreements of the past, as well as learnt from the successful ones, which we've also had in South Africa in recent years.

What we're should be looking at when a coalition agreement emerges over the next few weeks is: what does it therefore do about the core structures at local government? What does it do about policy? And what does it do about the relationship elements that will prevent instability and ensure joint governance? Is it transparent? It must be configured to promote a predictable environment for stakeholders and for business in particular, and to promote better governance and service delivery by encouraging local economic development on a bigger scale.

So obviously, the role of personalities is inevitable, but we hope it won't be decisive in the broader community interest. As far as Johannesburg is concerned in lighter vein let me just now say this: it was the beautiful face of Helen of Troy that is said ‘to have launched a thousand ships’ - I’m hoping that Helen Zille’s DA face now ‘will fill a thousand potholes’!

**Michael Avery:**

Well, that's the bottom line, Warwick, isn't it, for business? Because local government failure is effectively another ‘tax on business’. Companies are really paying enormously for private water and security and power and infrastructure that municipalities are supposed to provide but just don't. If these election results produce more competent councils, let's say in Johannesburg, which is 16–17% of South Africa's economy, how material could that economic dividend actually be?

**Warwick Lucas:**

Look, it could be quite substantial. And importantly, one would hope that it could appear without requiring a massive amount of new government expenditure. Businesses have effectively been paying twice for essential services - once through the municipality, and again then through ‘their own back pocket’ as the services paid for didn't materialize.

So, those costs will hopefully diminish in the future. And indeed we saw with the recovery in power that that was the case. The bigger concern is the issue around growth, namely, investments that never take place. If a manufacturer can't rely on water and electricity and planning approval and so on, then they're simply not going to undertake a productive activity in any case.

So alternatively, if reliability of services is improving, the trustworthiness of governance and so on improves, then that hopefully will propel investment going forward. I suppose that we want to look for. But I don't think investors are going to produce such a recovery immediately because, we've seen some ‘false starts’ before.

And, yes, coalition governments aren't necessarily rock solid. They tend to look rather fluid. So, one hopes that some of the negotiations that occur can look a little bit more solid. But I would say that, based on those numbers, you can add the political alignment groupings in different ways as much as you like.

Take the old ANC fragments, add them all back together, and see what number they come to. It's not a very comfortable number. Look at the numbers of new parties that have split off and could potentially work together with the right attitude toward different numbers. So there is scope for improvement here, but there is inherent ‘untidiness’ that will ultimately have to be addressed by improving certainty through the appropriateness and effectiveness of the legislation and institutions we have in place.

**Michael Avery:**

Raymond, let's talk about the most spoken-about outcome, and that is a replication of the national GNU at a local level. Because if you look at the numbers, the ANC and the DA, they could do a deal. They could get over 50%. They don't need ActionSA. The question for me is whether or not that's likely, because the catch is that voters have punished the ANC.

And the problem is the ANC is almost toxic now. So if you do a deal with the ANC, does that offend DA voters? And I know there is an understanding at a national level of the importance, certainly inside the ANC leadership about Johannesburg. And that's why the coalition agreements are going to be handled at a national level now - so sidestepping the regional structures of the Gauteng ANC, Mr Panyaza Lesufi or others who've been linked to the Alex Mafia. But just how likely is that ANC–DA partnership at a metro level?

**Raymond Parsons:**

What’s important here, Michael, of course, is that all democracy is untidy and rather messy. And it requires good leadership that puts some direction into it and gets promised outcomes. So in that sense, we must say to the emerging new leadership from the local elections: you’ll have to demonstrate that you will pass that test over the next few weeks.

But what we've learned from the GNU is that just because you happen to be part of a government of national unity, you can still compete at the local level. You just have to define the agreements that set the agreed boundaries or ‘rules of the game ’ for what your participation in the GNU implies and where you're free to compete elsewhere. I would certainly think that, first, in light of these latest outcomes, there needs to be a clearer definition of the boundary conditions that apply to the governance of the government of national unity in the future.

And secondly, nonetheless, with the advantage of the GNU experience, first prize may be to negotiate whether a coalition at the national level can be replicated at local level because they know each other. Hopefully there's some level of political capital that can be drawn upon, such as for Gauteng? I think we would hope that the biggest players will reach a stable deal, which will give us the outcomes we want.

But they will obviously, in that process, decide where they think they may stand in the future election in 2029 in forging local government coaltions now. And I might add that,

as appears to have been a swing factor in the latest municipal elections, a big variable in that future is where the black middle class will go with its vote in the 2029 election!?

**Warwick Lucas:**

If I can come in on a particular issue there, I think it's often underestimated that the DA has a bit of an ‘unlikability problem’. Yes, we've seen steady gains over the years, but there are many areas where they are thoroughly unliked. And that creates a natural ‘headwind’ for the DA that I think they're in constant danger of overplaying their cards - ignorant of the pushback that they have from that particular problem and why it makes them also a very difficult party to transact with.

**Raymond Parsons:**

I would only quickly add to that, Michael that, at the end of the day, in reality it's the numbers that decide what cards you can play. And the DA's numbers now obviously show gains, putting them in a stronger position to negotiate. But I accept the point about how you do it, and how the DA behaves under its new leader, is also quite important in what response you might get in seeking new alliances.

**Michael Avery:**

Well, that's actually to give Gordon Hill-Lewis his ‘flowers’, because out of all the leaders, he has struck me as the one leader who's been stately and statesmanlike. He said he's going to be approaching the coalition negotiations with deep respect and humility. And that's certainly not what we've seen from other parties, ActionSA among them. So, as much as it's a ‘hold-your-nose-and-potentially-do-a-deal-with-the-ANC-in-Johannesburg scenario’, I think Herman Mashaba needs to go and sit on the opposition benches and think a little more about his own cult of personality inside that party.

Now, just lastly, Raymond, and at a national level again, and looking at what happened with AGOA, would you say that perhaps Pretoria is now hoping that the Democratic blue wave will improve relations with Washington? I would argue that's probably a little bit of ‘wishful thinking’, though, because a lot of people pointed out to a tweet earlier this week that I was being naive and it was all Trump being upset with the ANC.

Our issues with Washington predate Trump. We voted at the UN with some very questionable actors, from North Korea to Venezuela to Iran, for years. If you read the ANC's strategy and tactics documents, they are openly hostile to the US. Surely it's a relationship that must be more important than being beholden to the animosity the ANC has toward the US. How do you see this going, and with the AGOA story?

**Raymond Parsons:**

The bottom line is that these political shifts in the US midterms are not a ‘make-or-break event’ for South Africa. South Africa was not on the agenda at all. And we must remember that, in foreign policy, the White House dominates - it still has the power of veto and its executive orders to largely do what it wants in that sphere. What has been

done to South Africa under AGOA was done by the White House, and it was executively empowered to do so under the AGOA legislation, which the previous Congress approved.

So, although you may get a more sympathetic tone on South African issues from a new Congress, the current realities of the SA-US political and economic relationships still have to be carefully managed. We still have to be skilfully diplomatic in our negotiations - in the hope that we can, for example, perhaps still reach a bilateral trade agreement with the US that covers the non-AGOA areas, which are much more important to South Africa and the US.

So the important point is to understand that, although we're interested in having the best economic and political relations with the US, South Africa is not on the agenda of the new Congress at the moment. And when this new Congress meets on the 3rd of January, it will have other priorities than South Africa on its agenda. So there is no clear path ahead for now.

I would also come back to the reality that, as much as we are seriously preoccupied with our external relations, and as vital as they are to our economic outlook, let's not lose sight in our discussions of key domestic policy challenges. What we all now need to do to concretize the local election outcomes, and also to prioritise how to expedite major domestic economic reforms that will fundamentally improve our economic performance.

**Michael Avery:**

Raymond Parsons, thank you very much, from North-West University Business School, and Warwick Lucas, Private Clients Portfolio Manager at Vunani, with ‘The Week That Was’ here on ‘Classic Business’.

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