GTC

Formerly Grant Thornton Capital

September 2014

Market Update

Global

September was a month of consolidation and some profit taking as world markets caught their breath after a period of considerable gains. The divergence in global economies became more apparent as the U.S. dollar continued its strong rise on the back of strong economic growth while the Euro continued its decline as a result of additional sanctions being imposed on Russia over the situation in the Ukraine.

There were also renewed concerns over the sustainability of economic growth in China and a downgrading of Emerging Markets on concerns over commodity prices.

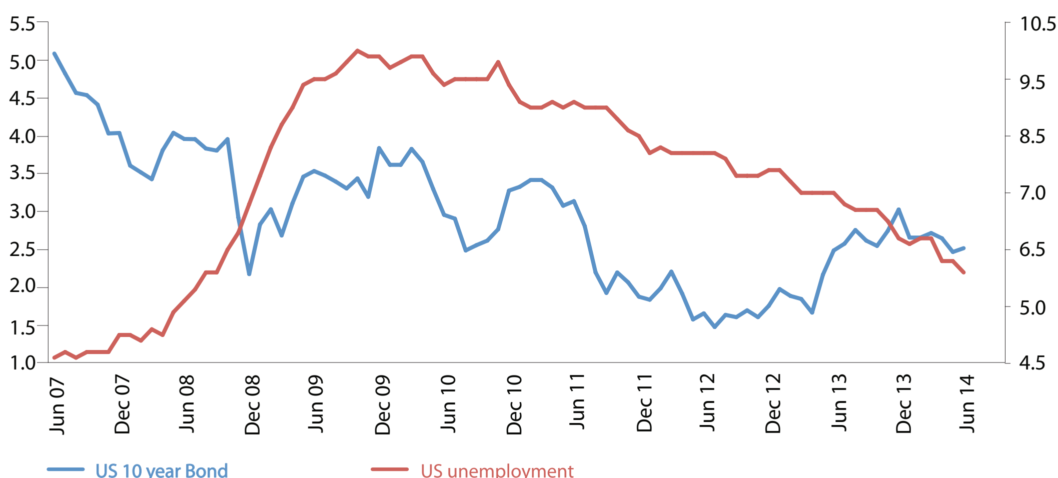
In the U.S. both equity and fixed interest markets showed declines over the month. The S&P 500 declined 1.45% and the Dow Jones Industrial Average posted a negative 0.23% return. Despite showing negative returns for two of the three months in the quarter, the S&P 500 delivered its seventh straight quarterly advance and has been rising steadily over the past three years.

As expected, the Federal Reserve reduced the pace of asset backed purchases by another$ 10 billion in September but hinted that interest rates would be kept low for some considerable time. Federal Reserve Chair Janet Yellen stated that interest rates could be raised sooner and more rapidly if growth in the U.S. economy proves to be stronger than initially expected.

Conversely, if economic activity disappoints, increases in the Federal Funds rate are to take place at a later date and be more gradual. The decision to begin raising rates will be driven by the economic outlook, estimates of the amount of slack in the job markets and an assessment as to how rapidly the slack is being taken up.

Recent economic data suggests the Fed will be in no hurry to raise rates as the extent and sustainability of the economic recovery still awaits confirmation.

US 10 Year Treasury Bond vs Unemployment Rate



Source: GTC/I-Net

The U.S.labour market continues to improve adding just over 225,000 jobs per month since January while the unemployment rate has fallen to 5.9% below its 50 year average. However, in spite of employment growth, there is little sign of wage growth. One risk facing the U.S. economy is the significant appreciation in the value of the dollar which has gained 8.4% since mid-year against the Euro and 5.5% against Sterling. Whilst the stronger dollar is a signal of confidence in the economy it is also a source of deflationary pressure. A stronger dollar will benefit consumers as it caps energy prices.

However it could also weigh on equity markets as it could reduce foreign earnings of American companies leading to a lowering of both confidence and consumer spending. In addition, by importing deflation the Federal Reserve may delay the normalisation of the interest rate cycle. Energy costs are already declining on the back of increased shale oil output and the West Texas benchmark oil price declined nearly 14% over the last few months. Nevertheless, current market expectations are for the interest rate cycle to begin normalising in mid-2015.

The U.K. equity markets high exposure to the resources sector explains its poor performance over the month as commodity prices came under renewed pressure both as a result of a flagging Chinese economy and a resurgent dollar. Mining and oil and gas companies dragged the FTSE 100 to a 2.89% deficit over the month. The market's defensive stocks fared best with tobacco counters doing particularly well.

Eurozone equities continued to show negative returns over the month as the regions fragile economic recovery continues to falter. The increased sanctions against Russia over the Ukrainian situation continue to impact on the region and in particular on Germany. What started in Europe four years ago as a banking and sovereign debt crisis has become a growth crisis of serious proportions enveloping Europe's three largest economies. Germany is teetering on the brink of recession, France's economy is stagnant and Italy is officially in recession.

In order to try and provide some stimulus to the region, which is experiencing a deflationary cycle, the European Central Bank (ECB) lowered its benchmark interest rate to 0.05%. Furthermore, overnight deposit rates with the ECB have been set at a negative 0.20% which is to encourage commercial banks to make credit more freely available. Additionally it was announced by the ECB President Mario Draghi that a system of quantative easing, much along the lines adopted by the United States, would be introduced in the near future. Although the Eurozone's Purchasing Managers Index (PMI) showed strong growth in July the improved conditions have deteriorated and despite the best efforts of the ECB deflationary pressures continue to drive consumer prices downward.

Economic data out of China continues to reflect a slowing down in manufacturing output. In order to counter this slowdown certain remedial steps have been taken by Beijing including having the Central Bank pump $80 billion into the country's five largest State owned banks with a view to boosting lending to businesses.

The injection of a three month low interest loan is seen as equivalent to a 0.5% cut in the ratio of cash that banks must hold on deposit with the Central bank.HSBC's China PMI for September rose unexpectedly to 50.5 points above the consensus of 50 and above the 50.2 in August. Earlier in August, data showed that China's exports had accelerated but that imports were markedly down suggesting a significant downturn in private domestic consumption.

The authorities are desperately trying to steer economic growth away from relying so heavily on exports and foreign investment to a more balanced economy where private domestic consumption plays a bigger role. Concern over a possible property bubble continues as overall property prices continue to decline.

Global

On the back of falling global commodity prices, an ever strengthening U.S. dollar and concerns over an oversupply of coal and iron ore, the FTSE/JSE ALSI retreated from its previous highs to close at 49,336 points following its all-time high of 52,323 on the 29th July. In total return terms the index lost 2.58% over the month. Pharmaceuticals were the best performers up 8.65% followed by beverages up 7.31%. The worst performers were Gold Mining down 17.46%, Industrial Metals down 13.55% and Platinum down 13.45%. Iron Ore has fallen 45% in the past 10 months. S.A.'s PMI rose to 50.7 in September from 49.0 in August signalling positive growth. On a month by month basis Consumer Price Inflation slowed to 0.4% in August from 0.8% in July. Producer Price Inflation came in at a better than expected 7.2% in August against 8.0% in July.

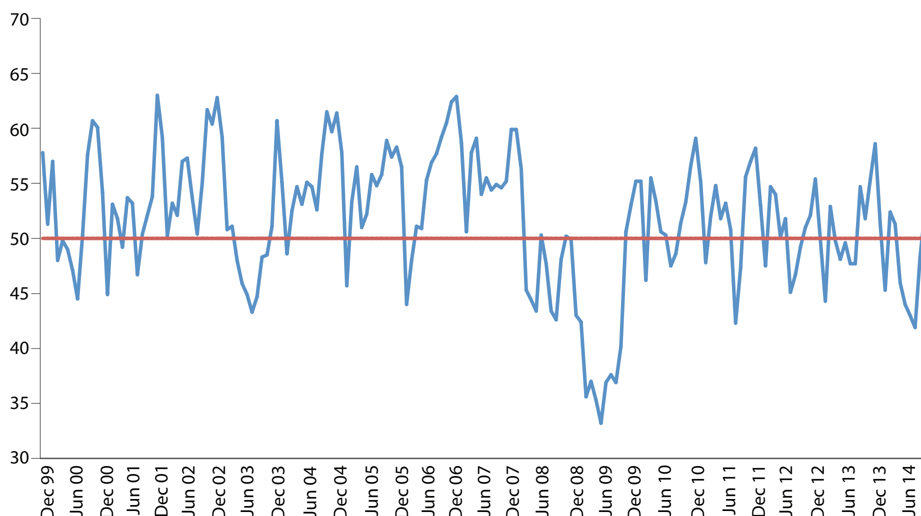
Eskom woes continue to hamper domestic economic development. In its report back to Parliament Eskom warned of possible load shedding this summer. Generating capacity remains under severe pressure as some of the older power stations supplying the grid require complete overhauls. Unduly deferred maintenance as well as poor performance by Eskom contractors suggests that it will be 2019 before total grid stability can be assured.

In order to address the longer term needs of the country a decision has been taken by Government to implement a nuclear power policy on the back of which agreements will be signed with a number of countries as part of the initial tender process. The Government dismissed as pure speculation the news that the Russian nuclear agency had been contracted to build eight nuclear power stations in South Africa at a cost of R1 trillion.

Slowing growth in China coupled with the possibility of rising interest rates in the U.S. have placed commodity exporting emerging nations on the back foot. A substantial reduction in global liquidity threatens the outlook for emerging markets particularly those running substantial fiscal and current deficits.

South Africa's policy makers are indeed between a rock and a hard place facing benign domestic growth, a weaker local currency and rising inflation expectations. As a result, in spite of subdued economic growth, further interest rate hikes might be necessary- not to curtail consumer demand, but to provide attractive real interest rates in order to attract ever diminishing foreign investment inflows.

SA PMI



Source: GTC/I-Net

GTC Fund Performances - September 2014

Client portfolios	1Year	*2Year	*3Year	*4Year	*5Year
GTC EB Market Plus	16.07%	20.99%	20.66%	16.45%	16.83%
GTC EB Market Plus Benchmark	15.92%	19.63%	20.48%	16.52%	15.83%
GTC High Equity Fund - Provident	9.86%	15.41%	14.73%	11.75%	11.75%
GTC High Equity Inflation Target - CPI+5%	11.43%	11.43%	10.93%	10.79%	10.33%
GTC High Equity Fund - Pension	9.86%	15.20%	14.51%	11.59%	11.69%
GTC High Equity Inflation Target - CPI+5%	11.43%	11.43%	10.93%	10.79%	10.33%
GTC Moderate Fund - Provident	9.18%	13.38%	12.65%	10.48%	10.81%
GTC Moderate Inflation Target - CPI+3%	9.42%	9.43%	8.93%	8.79%	8.33%
GTC Moderate Fund - Pension	9.10%	13.34%	12.61%	10.41%	10.73%
GTC Moderate Inflation Target - CPI+3%	9.42%	9.43%	8.93%	8.79%	8.33%
GTC Conservative Fund - Provident	6.03%	8.57%	8.47%	7.28%	7.32%
GTC Conservative Inflation Target - CPI+1%	7.42%	7.43%	6.92%	6.79%	6.33%
GTC Conservative Fund - Pension	6.31%	8.90%	8.76%	7.73%	7.70%
GTC Conservative Inflation Target - CPI+1%	7.42%	7.43%	6.92%	6.79%	6.33%
FTSE/JSE All Share Index (ALSI)^	13.74%	19.29%	20.39%	15.52%	16.27%
FTSE/JSE Shareholder Weighted Index (SWIX)^	16.24%	19.79%	21.54%	16.50%	17.19%
BEASA All Bond Index (ALBI)^	4.22%	2.89%	6.88%	6.24%	7.68%
Cash (SteFi)^	4.08%	3.85%	3.92%	4.03%	4.35%
MSCI World Index (R)^	21.16%	30.64%	28.06%	21.71%	16.24%

* Annualised   ^Benchmark returns include 1,5% fees   GTC performances shown are net of all fees

The **GTC Market Plus Funds** has benefited from its equity market exposure, both domestically as well as offshore. The fund continues to beat its composite benchmark over all periods.

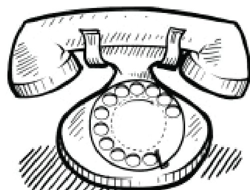
The **GTC High Equity Funds** (previously Aggressive) is underperforming its target over 1 year on the back of the selloff in equity markets over the quarter but maintained its outperformance relative to the inflation adjusted target over longer term periods. Equity markets continue to be the main driver for fund performance. Our manager blend has a component of protection which we feel is prudent in the current environment.

The **GTC Moderate Funds** is underperforming its target over 1 year on the back of the selloff in equity markets over the quarter but maintained its outperformance relative to the inflation adjusted target over longer term periods. Equity markets remain the key driver of performance.

The **GTC Conservative Funds** have produced above target returns over all medium and longer term investment horizons. The main objective of the fund is to reduce capital risk whilst aiming for above inflation returns..

Further information

Contact us



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