GTC Market Update

August 2016

Global - Come September, maybe now come December?

August saw little change in the MSCI World Index which in Dollar terms delivered a paltry 0.13% for the month and which has returned 3.41% year to date. On the other hand the MSCI Emerging Market Index was up 2.25% for the month and has delivered a sparkling 12.53% year to date. The hunt for yield on the part of global investors continues to underpin emerging markets.

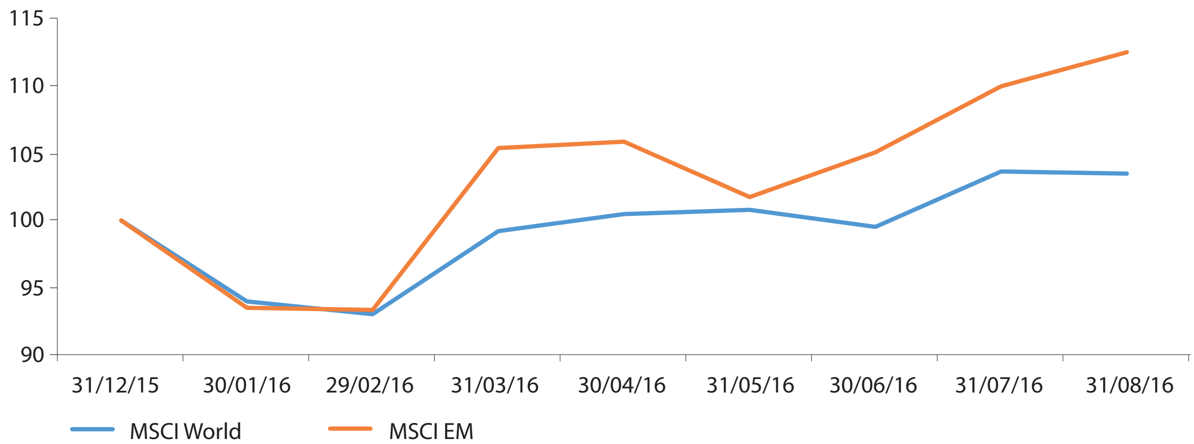
In the US continued concern surrounding a potential interest rate hike kept investors sidelined with the S&P 500 rising just 0.1%. Early in August Federal Reserve Chair Janet Yellen told a symposium of central bankers that the case for a further rate increase had strengthened on the back of an upbeat assessment of the US economy. This was confirmed by a better than expected increase in non-farm payrolls in July rising by 255,000 as well as consumer confidence improving from 97.3 in July to 101.1 in August. Consumer spending also displayed positive momentum increasing 0.3% in July.

Whilst the potential for an interest rate hike kept the overall equity market on the back foot, financials, especially banks, performed well managing to claw back losses that had been experienced earlier in the year when it was suggested that low interest rates were to remain for considerable time.

Eurozone economic growth in Q2 continued to improve with GDP increasing 0.3% quarter on quarter. Other economic indicators such as the flash composite PMI for August were positive, the index climbing to 53.3 which was a seven month high. However mixed signals in terms of manufacturing suggested that further stimulatory measures might be forthcoming at the European Central Bank meeting in September.

Unemployment remained constant at 10.1% in July with annual inflation subdued. There was little if any market reaction as a result of the UK's "Brexit "with investor confidence in Germany displaying considerable resilience. Cyclical sectors were in favour with financials, materials and industrials attracting the most interest.

MSCI World vs MSCI EM YTD 2016



Source: GTC/I-net BFA

With the UK's decision to leave the European Union a reality, the Bank of England introduced a series of monetary easing measures to counter the potential economic fall-out which might ensue. This was predicated by the Bank of England lowering its GDP forecast for 2017 from 2.3% to 0.8%. The reaction from the Monetary Policy Committee was short and sharp cutting base rates and providing monetary stimulus for investors to the tune of 170 billion Pounds. Quantative easing commenced almost immediately with 70 billion Pounds earmarked for asset repurchases which included a somewhat surprising allocation of 10 billion Pounds for corporate bonds.

Not surprisingly the FTSE All-Share Index returned a positive 1.9% over the month as investors took cheer from the stimulatory measures in spite of the outlook for interest rates being held lower for longer. Standard Chartered's encouraging Q2 results coupled with HSBC's announcement of a share buyback added strength to the banking sector which had experienced a sharp sell-off when the results of the referendum were announced. The basic materials sector continued to disappoint as global demand for raw materials weakened further particularly from China where leading economic indicators remained cause for concern.

The vagaries of the Yen as a safe haven currency continued to dominate the Japanese equity market but nevertheless it managed to deliver a positive return of 0.6%. Currency flows earlier in the month were strong but abated latterly with the Yen ending marginally down for the month.

The earlier currency strength resulted in a sharp sell-off of the market and resulted in some sectors being heavily oversold. As the currency weakened a rebound occurred with the banking, iron and steel as well as other cyclical sectors outperforming.

The Bank of Japan continued with its massive fiscal spending package but in order to stimulate the economy even further the Abe administration announced details of the programme which is designed so as to run alongside it. The magnitude of the spend is estimated to add a significant 1.5% to GDP over the next two years. However in spite of all these Herculean efforts economic growth for the most part remains subdued.

In spite of economic data from China remaining subdued, Chinese equities ended the month up strongly as sentiment suggests that further significant quantative easing by the People's Bank of China is likely to be forthcoming in the next few months. Weaker than expected retail numbers for July as well as trade data continued to disappoint. Both imports and exports declined in July with the latter declining a significant 4.4% year on year indicative of subdued global demand.

Domestic - Zumanomics

Political events dominated the local stock market for most of the month with fears of the imminent arrest of Finance Minister Pravin Gordhan undermining investor confidence and playing havoc with the value of the Rand. Having climbed to R13.30/$, the continual threats being levelled at the Finance Minister saw the currency sink rapidly to near its previous lows.

The JSE/ALSI returned a negative -0.12% but gained 0.27% in total return terms as August is a high dividend payout month. The Top40 returned 1.19%. The Property sector declined -4.91% while the INDI25 gained 2.04%. The RESI20 and the FINI15 declined -0.25% and -2.88% respectively. The Construction and Materials sector was way above the best performer returning 12.07% with Aveng up a spectacular 40.45% and Cashbuild up 3.51%. Gold Mining reversed the previous month's trend shedding -16.34%.

The All Bond Index was down -1.77%. The long duration nature of the index resulted in the bulk of selling being experienced at the long end of the yield curve. The 12+maturity sector lost -2.19% while the 3-7 year bucket was down -0.64%. Inflation Linked Government Bonds were down- 0.19%. Cash returned 0.59%. The search for enhanced yield was clearly demonstrated as foreigners purchased R12.07 billion of bonds over the month.

Producer inflation accelerated in July, with the producer price index (PPI) rising 7.4% year on year after a 6.8% increase in June. The PPI for final manufactured goods was expected to have accelerated marginally to 6.9% in July from 6.8% in June according to a median consensus forecast. Producer inflation ultimately feeds into consumer inflation which the Reserve Bank targets for monetary policy. Consumer inflation slowed to 6.0% in July from June's 6.3%. However the inflation outlook has become clouded after the Rand's recent run of strength was brought to an abrupt halt over the Gordhan issue.

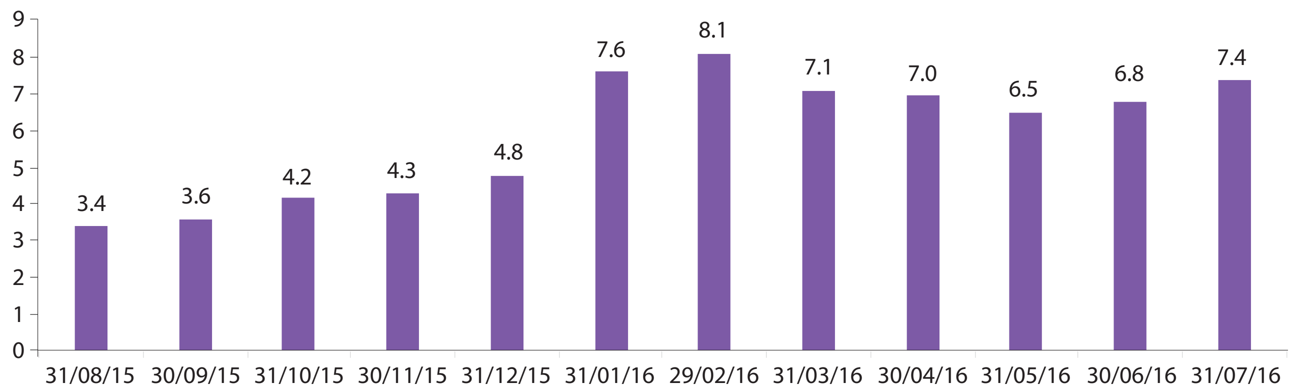
Mining and manufacturing, the bedrocks of the South African economy, put in better-than-expected performances in June compared with the same period in 2015. Although mining production contracted 2.5% year on year in June, this decline is slower than the 3.9% in May and the sharp 7.5% contraction in April. Manufacturing output growth shot up 4.5% year on year in June. This is the highest level of growth recorded since a peak in July 2015. In May and April 2016 manufacturing output grew 3.9% and 3.2% respectively. Seven out of 10 manufacturing sub-sectors increased output. Mining and manufacturing constitute 20% of the country's GDP and are significant employers in the economy.

The REIPPP (Renewable Energy Independent Power Producer Procurement) project has been a resounding success and has attracted R200bn in private investment in the past five years during which the prices of renewable energy have dropped considerably due to competitive bidding and improved technology. While Eskom argues that renewable energy is expensive, the Department of Energy says it is increasingly competitive with solar costs having dropped 75%, and wind 50%.

The cost for both solar (91c/kWh) and wind (75c/kWh) are equal to, or below costs for new coal generation. Although Eskom says it anticipates the cost of power from Medupi to be 70c/kWh, independent analyst's estimate that it is well over R1/kWh. While Eskom complains about the cost of renewables, it is passed on through their tariff to consumers. Perhaps certain vested interests in nuclear power are at the heart of the argument.

In spite of the vicissitudes of the equity markets our advice remains steadfast, keep cool heads and stay the course.

SA producer price inflation



Source: GTC/Statistics SA

GTC fund performances - August 2016

Client Portfolios	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC High Equity - Provident	6.48	5.59	8.22	10.99	11.11
GTC High Equity Inflation Target CPI+5%	11.04	10.51	10.79	10.93	10.73
GTC High Equity - Pension	6.35	5.58	8.19	10.87	10.94
GTC High Equity Inflation Target CPI+5%	11.04	10.51	10.79	10.93	10.73
GTC Moderate - Provident	5.63	4.61	7.18	9.41	9.52
GTC Moderate Inflation Target CPI+3%	9.04	8.50	8.78	8.92	8.73
GTC Moderate - Pension	5.64	4.61	7.14	9.38	9.49
GTC Moderate Inflation Target CPI+3%	9.04	8.50	8.78	8.92	8.73
GTC Conservative - Provident	6.44	5.54	6.14	7.23	7.42
GTC Conservative Inflation Target CPI+1%	7.04	6.50	6.78	6.92	6.72
GTC Conservative - Pension	6.62	5.66	6.47	7.49	7.67
GTC Conservative Inflation Target CPI+1%	7.04	6.50	6.78	6.92	6.72
GTC EB Market Plus - Pension	6.48	5.63	9.24	12.31	12.28
GTC EB Market Plus - Benchmark	8.24	7.39	11.32	12.98	13.89
GTC EB Market Plus - Provident	5.17	4.64	9.22	12.30	12.27
GTC EB Market Plus - Benchmark	8.24	7.39	11.32	12.98	13.89
FTSE/JSE All Share Index (ALSI) ^	7.02	3.25	9.36	12.17	12.97
FSTE/JSE Shareholder Weighted Index (SWIX) ^	7.31	5.13	11.61	13.25	14.48
BEASA All Bond Index (ALBI) ^	2.90	3.36	5.55	3.79	5.35
Cash (SteFi)^	5.45	5.11	4.74	4.46	4.39
MSCI World Index (R)^	12.62	14.16	16.53	21.59	22.14

*Annualised

GTC Performances are shown net of all fees

^Benchmark returns include 1.5% fees

The **GTC Market Plus Funds** lagged their inflation targets as weaker equity markets and a stronger Rand impacted performance. Within our manager blend, exposure to volatile resources had detracted in the short term.

The **GTC High Equity Funds** lagged their inflation targets as weaker equity markets and a stronger Rand impacted performance. Our manager blend has a component of protection which we feel is prudent in the current environment.

The **GTC Moderate Funds** performed in line with their inflation adjusted targets over longer term periods. Equity markets remain the key driver of performance.

The **GTC Conservative Funds** lagged their inflation targets over the short term as weakness in equity markets impacted performance, but were ahead of their inflation target over the longer term. Bond market exposure assisted over the short term.

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