GTC Market Update

October 2016

Global - Interest rates? The FED's folly

U.S. markets fared poorly during October as continued talk of a rise in U.S. interest rates at year end adversely affected investor sentiment. This was evidenced by the MSCI World Equity Index declining -2.01%. The MSCI Emerging Market Equity Index gained a paltry 0.18% but year to date has returned 13.97%. In spite of the U.S. earnings season being in full swing with an excess of 60% of companies reporting better than expected profits, the S&P 500 declined -1.94% and the Dow Jones shed -0.91%.

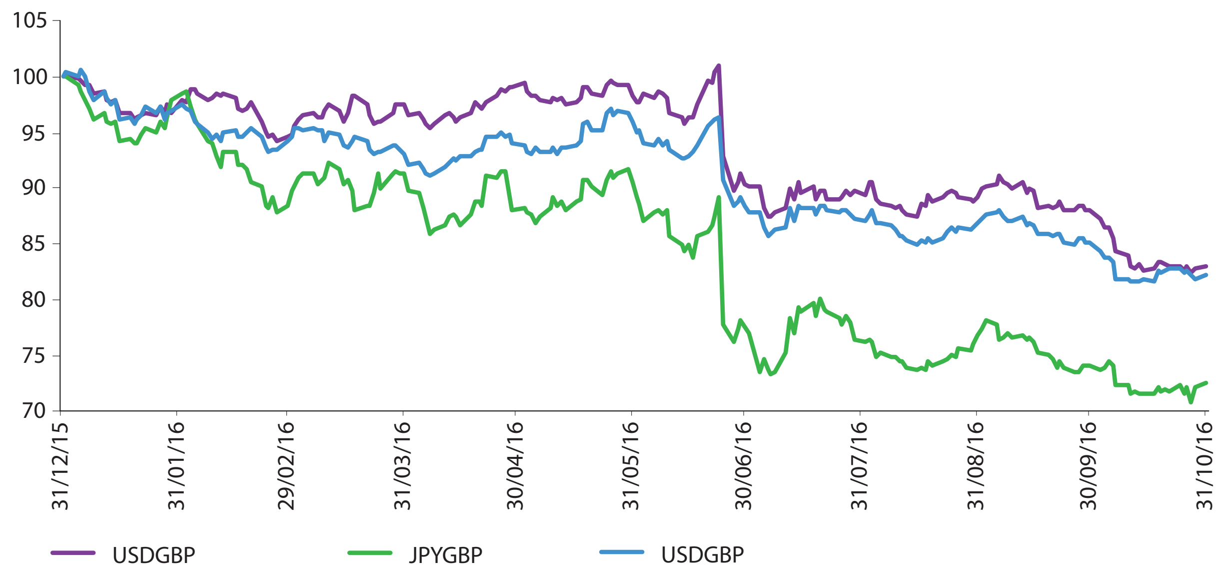
The minutes of the September meeting of the Federal Open Market Committee indicated that the decision to hold interest rates was a "close call" and subsequent statements hinted that the likelihood of a December rate rise "continued to strengthen". GDP estimates confirmed that U.S. growth has accelerated coming in at 2.9% for Q3. Inflation data however remains mixed with CPI coming in at 2.2% for the year.

Eurozone equities performed well over September with the German DAX Composite gaining 0.84% and the French CAC40 1.37%. The European Central Bank kept monetary policy unchanged with President Draghi indicating that any additional quantitative easing beyond the current programme would be decided on in December. European GDP bumbled along expanding a paltry 0.3% in Q3, with inflation slightly higher at 0.5%.

Of more interest is the fact that the composite PMI for October for the Eurozone hit a ten-month high of 53.7.

Sterling declined sharply over the month against its major trading currencies amid continuing uncertainties surrounding the UK's decision to leave the European Union. The FTSE All Share rose 0.6%. Prime Minister Theresa May indicated that the government would commence a formal withdrawal from the EU in March 2017.

Great British Pound vs Major Currencies



Source: GTC/I-net BFA

The market made progress despite poor performances from the heavyweight consumer goods and utilities sectors which had underperformed against a backdrop of sharply higher bond yields. Bond yields rose on the back of higher inflation expectations as markets showed concern over sterling's weakness. These fears were confirmed as September numbers showed that inflation had indeed risen sharply. Domestically oriented counters sagged with the FTSE 250 down -2.2% over the month.

The Japanese market had an outstanding month returning a welcome 5.3%. This market performance is very much aligned to the Yen's strength versus the Dollar so that September's good performance came on the back of the Yen weakening against most of Japan's trading partners. The Bank of Japan held a further policy meeting at the end of October but as was widely expected no changes were made to interest rates or the asset repurchase programme. While the target rate for inflation remains at 2%, the Central Bank has lowered its own expectations for inflation for 2018.

Chinese equities faced strong headwinds in September delivering negative returns for the month. The combined effect of a weakening Yuan, liquidity tightening and further controls on property speculation weighed on investor sentiment. Third quarter GDP came in at 6.7% much in line with expectations but September's trade data highlighted the considerable difficulties facing the world's second largest economy.

As a previous net-exporter of deflation Chinese consumer price inflation data appears to show that inflation is gaining traction in China with CPI coming in at 1.9%, considerably above expectations. Factory gate prices still remain sluggish though - finally making it into positive territory at 0.1% for the first time since February 2012. Chinese PPI prices have been slowly improving for several months now so this return to positive territory is welcoming news, especially as PPI was -5.9% at the beginning of this year.

China's exports weakened last month by 10% in Dollar terms on the back of subdued external demand. At the same time import growth returned to negative territory raising questions over the strength of the recent recovery in domestic demand. This could be a sign that the recent recovery in economic activity is losing momentum.

Domestic - The long haul begins...

The local market was very much focused on the Medium Term Budget Policy Statement delivered by Finance Minister Pravin Gordhan under the cloud of a threatened arrest on trumped up fraud charges, which were subsequently withdrawn. The Mini-Budget did little to restore investor confidence resulting in the JSE/ALSI declining 2.49 %. The RESI20 and the INDI25 were both lower at -3.83% and -3. 06% respectively. Industrial Metals were the star performer, returning 10.85% with Kumba Iron Ore up 10.28% and Arcelor Mittal up 29.21%.

The All Bond Index continued to improve returning 0.64%. The bulk of trading took place in the 12+maturity bucket which gained 0.73% while the 7-12 year maturity gained 0.53%. Inflation linked bonds returned 0.65% and cash 0.63%.

South Africa's Finance Minister Pravin Gordhan announced in the Medium Term Budget Policy Statement that the consolidated budget deficit for 2016-17 is expected at 3.4% of GDP compared to 3.2% previously, indicating that weaker economic growth had reduced tax revenue estimates. The economy is forecast to grow by 0.5% in 2016, 1.3% in 2017 and 2% in 2018. Inflation is expected to rise by 6.4% in 2016, 6.1% in 2017 and 5.9% in 2018. Additionally, Treasury will slash expenditure by R26bn and increase tax collection by R43bn over the next two years.

Consumer inflation accelerated in September rising back above the 6% upper limit that the Reserve Bank targets when setting interest rates. The consumer price index rose 6.1% in September compared with a year earlier after a 5.9% increase in August and a 6% rise in July. The September acceleration was not unexpected with economists pointing to a smaller decrease in the petrol price as one of the factors. The Bloomberg consensus was for an increase of 6.2% while Trading Economics forecast a 6.1% rise.

Measured in real terms retail sales increased by 0.2% year-on-year in August 2016. The main contributors to the 0.2% increase were general dealers and retailers in pharmaceuticals and medical goods, cosmetics and toiletries. Seasonally adjusted retail trade sales increased by 0.3% month-on-month in August 2016. This followed month-on-month changes of -0.2% in July 2016 and -1.9% in June 2016. In the three months ended August 2016, seasonally adjusted retail trade sales decreased by 0.6% compared with the previous three months.

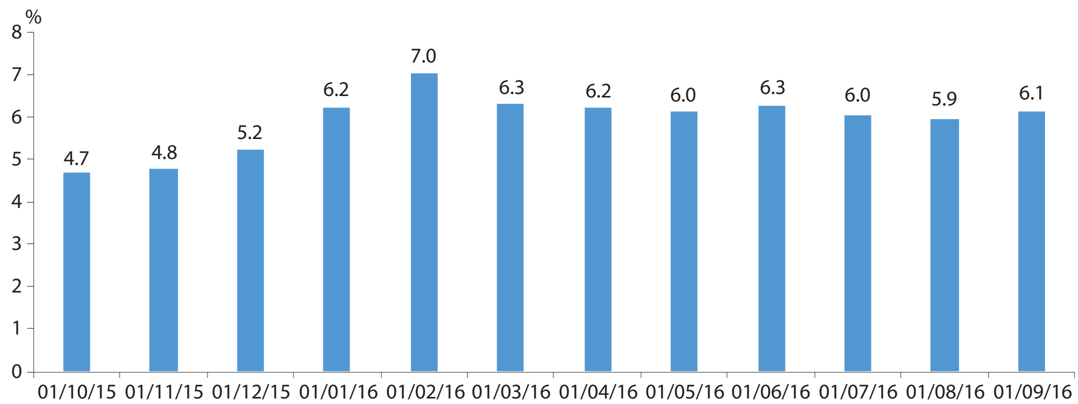
The SA economy has endured several severe economic shocks in the past few years: a labour shock, a commodities shock, an electricity shock, and on top of everything, the worst drought in 55 years. At last however there is a sense among economists that the business cycle is bottoming out and that SA will enjoy relatively better growth and lower inflation next year, perhaps even an interest rate cut in the second half if the promised rains come. A summer with good rains is essential for increasing food supply and tempering food inflation which has been the driving force behind the CPI target breach for much of this year.

South Africa's SACCI business confidence index fell to a level of 90.30 in September compared to a level of 92.90 in the prior month. Meanwhile the Standard Bank PMI registered a rise to 50.70 in September compared to a level of 49.80 in the previous month.

Good news for commodity exporting countries such as SA is that the World Bank projects a modest recovery for most commodities in 2017 as demand strengthens and supplies tighten. Metals and minerals prices are expected to rise 4.1%, an upward revision of 0.5% due to increasing supply tightness.

As expected volatility in both global and our own domestic stock market continues to gather momentum. However, this is certainly not a time for rash decisions - it is a time for cool heads and clear thinking.

SA CPI



Source: GTC/Inet BFA

GTC fund performances - October 2016

Client Portfolios	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC High Equity - Provident	0.15	4.77	5.82	9.25	9.60
GTC High Equity Inflation Target CPI+5%	11.13	10.36	10.55	10.65	10.61
GTC High Equity - Pension	-0.10	4.74	5.80	9.15	9.42
GTC High Equity Inflation Target CPI+5%	11.13	10.36	10.55	10.65	10.61
GTC Moderate - Provident	0.48	4.11	5.14	8.04	8.31
GTC Moderate Inflation Target CPI+3%	9.13	8.36	8.54	8.65	8.61
GTC Moderate - Pension	0.48	4.07	5.11	8.01	8.29
GTC Moderate Inflation Target CPI+3%	9.13	8.36	8.54	8.65	8.61
GTC Conservative - Provident	3.06	5.00	4.98	6.36	6.61
GTC Conservative Inflation Target CPI+1%	7.12	6.35	6.54	6.65	6.61
GTC Conservative - Pension	3.23	5.16	5.18	6.61	6.83
GTC Conservative Inflation Target CPI+1%	7.12	6.35	6.54	6.65	6.61
GTC EB Market Plus - Pension	-1.61	4.87	5.77	10.40	10.87
GTC EB Market Plus - Benchmark	-0.33	5.36	7.72	11.14	12.17
GTC EB Market Plus - Provident	-1.78	3.31	5.78	10.40	10.87
GTC EB Market Plus - Benchmark	-0.33	5.36	7.72	11.14	12.17
FTSE/JSE All Share Index (ALSI) ^	-4.86	2.30	5.08	9.61	11.02
FSTE/JSE Shareholder Weighted Index (SWIX) ^	-2.68	3.01	6.79	10.96	12.71
BEASA All Bond Index (ALBI) ^	5.34	4.32	5.33	4.64	5.98
Cash (SteFi)^	5.67	5.24	4.88	4.56	4.46
MSCI World Index (R)^	-3.44	9.56	11.37	17.87	18.04

*Annualised

^Benchmark returns include 1.5% fees
GTC Performances are shown net of all fees

The **GTC Market Plus Funds** lagged their targets on the back of equity market weakness and volatility.

The **GTC High Equity Funds** (previously Aggressive) lagged their inflation targets, as short detraction from equity markets impacts 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 detraction from equity markets impacted performance, but are ahead of the inflation target over the longer term. Equity markets remain the key driver of performance.

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