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GTC Market Update

November 2016

Global - Keynes thinking returns!

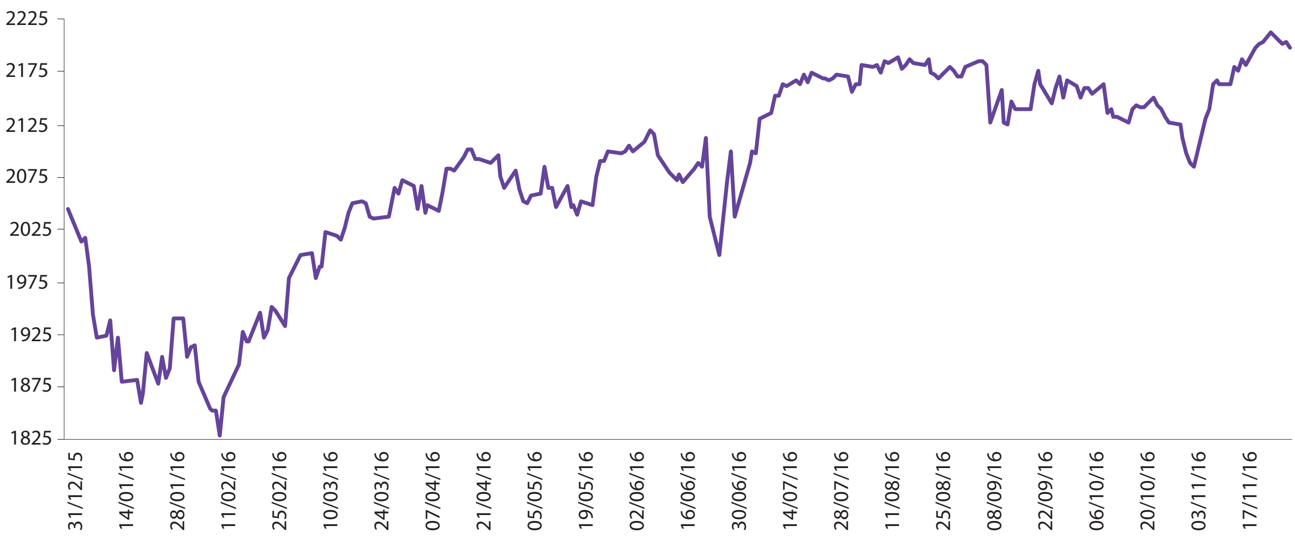
Political events continued to dominate global investment markets during the month with the surprise of the Brexit referendum being completely overshadowed by the shock election of Donald Trump as US President. The result saw a complete divergence in bond/equity performance in the US markets while the Dollar surged against most currencies and had a particularly negative impact on emerging markets. This was evidenced by the MSCI World Equity Index gaining 1.25% over the month in Dollar terms, while the MSCI Emerging Market Index declined -4.60%.

Following the election result investor focus in the US in particular shifted to assess the likely economic policies to be followed by the Trump administration which indicated possible tax cuts as well as a boost to infrastructure spending. The slogan "Make America Great Again" also signaled a more isolationist policy which might influence global economic growth.

For the first months of 2016 US investors enjoyed steady returns with the S&P 500 up 5.9% and government bonds returning 4.1%. The Trump shock immediately reversed the situation with the S&P rising a further 3.7% in November against a negative -2.8% delivered by government bonds.

The optimism reflected in the equity market was offset to an extent by the concern evident in the bond market which suggested rising inflation and hence interest rates. Whilst up to now US monetary policy has been in step with global economies, there now exists a distinct possibility that as the US economy gathers momentum, more emphasis will be placed on fiscal rather than monetary policy which could signal a move away from the philosophy of quantitative easing.

S&P 500 Index



Source: GTC/I-net BFA

As the Eurozone absorbed the recent global political changes local investors were well aware that the Eurozone itself faced decisive elections in Italy early in December and subsequent elections in both Germany and France in 2017. There is obvious concern that the outcomes of these elections could have a very important bearing on the long term solidarity of the European Union with all its ramifications. The banking sector in Italy was also cause for concern.

These uncertainties kept investors sidelined with the MSCI EMU declining -0.29% over the month. With higher interest rates expected in the US, financial counters enjoyed some support as both banks and insurers are beneficiaries of rising bond yields. Some encouragement did come from the flash composite purchasing manager's index which came in at 54.1 while the consumer confidence indicator rose 1.9 points.

It is interesting that the UK's Chancellor of the Exchequer seems to have taken a leaf from Trump's book in that he too is now proposing an increase in infrastructure expenditure and has abandoned his predecessor's pledge to run a balanced budget. Sterling recovered somewhat as the High Court ruled that the government needed to seek parliamentary approval before it could invoke article 50 to remove the UK from the European Union. The currency was also supported by the Bank of England upgrading its growth forecasts.

The FTSE All-Share declined -1.62% in Sterling terms. Financials rose in anticipation of a steepening yield curve while miner's benefited from Trump's proposed infrastructure spend.

In spite of considerable currency volatility on the back of the US election result, the Japanese market rose strongly in November returning a healthy 5.5% in Yen terms. This was a promising outcome given the Yen's safe haven status. In line with most developed global markets, bank and insurance counters responded to the global rise in bond yields in spite of the Bank of Japan's aggressive easy monetary policy. Banks returned 14.8% while insurance counters were up 15.2%. Japan released some encouraging economic data during the month particularly for industrial production which was well ahead of expectations. Inflation numbers were higher after a series of negative months.

The Chinese market saw stocks marginally down in November but the longer term outlook will obviously be influenced by the Trump administration's approach to continuing trade with the world's second largest economy. Despite the electioneering rhetoric both countries need to proceed cautiously in order to avoid impacting severely on global trade. Early December will see the start of the Shenzhen-Hong Kong stock connect which will see global markets being given access to a wider range of Chinese equities particularly in the technology sector. The latest economic data indicated a further slowing of the economy with both imports and exports declining.

Domestic - Ratings escape?

The local market was dominated by the long awaited rating announcements by two of the internationally recognised rating agencies, Moody's and Fitch. Moody's elected to maintain SA's rating at Baa2, while Fitch affirmed their rating at BBB- but changed their economic outlook from stable to negative. Standard and Poor's rating is still awaited. Also dominant was the surprise election of Donald Trump as the next American president. Combined, these factors resulted in the FTSE/JSE ALSI declining -0.75% and in total return terms losing -0.55%. Resources were a positive factor with the RESI20 up 6.85%. The INDI 25 was down 4.14% while the bank and insurance FINI15 was up 1.34%. Gold Mining together with the Platinum and Precious Metals sectors were the big losers being down 16.9% and 15.0% respectively. Foreigners were net sellers of equities to the value of R21.59 billion.

The good performance displayed by the All Bond Index earlier in the year was brought to a sudden halt as the likelihood of a Federal Reserve interest rate hike in December became more certain. The Index shed -1.83% with the 12+ maturity sector down -2.48% and the 7-12 year sector down -1.27%. Foreigners sold bonds to the value of R16.77 billion. In spite of this the ALBI has gained some 13.67% year to date whilst the JSE/ALSI has delivered a measly 1.64% including dividends. Cash returned 0.61%.

At its Monetary Policy committee meeting, The South African Reserve Bank kept the repo rate unchanged at 7.0% and signaled that the rate hiking cycle might be coming to an end. However this could be influenced by developments in the US. The SARB's growth projections were revised to 0.4% from the previous 0.0%. Consumer inflation moved further outside the Reserve Bank's 3%-6% target range in October as some economists had expected.

The consumer price index increased 6.4% in October from a year earlier after the 6.1% increase reported last month for September. Forecasts varied with some economists calling for a rise as high as 6.4%.

Mining production increased by 3.4% year-on-year in September 2016. Iron ore was the largest positive contributor. Manufacturing production was unchanged between September 2015 and September 2016. Seasonally adjusted manufacturing production increased by 1.5% in September 2016 compared with August 2016. This followed month-on-month changes of -1.1% in August 2016 and -1.9% in July 2016.

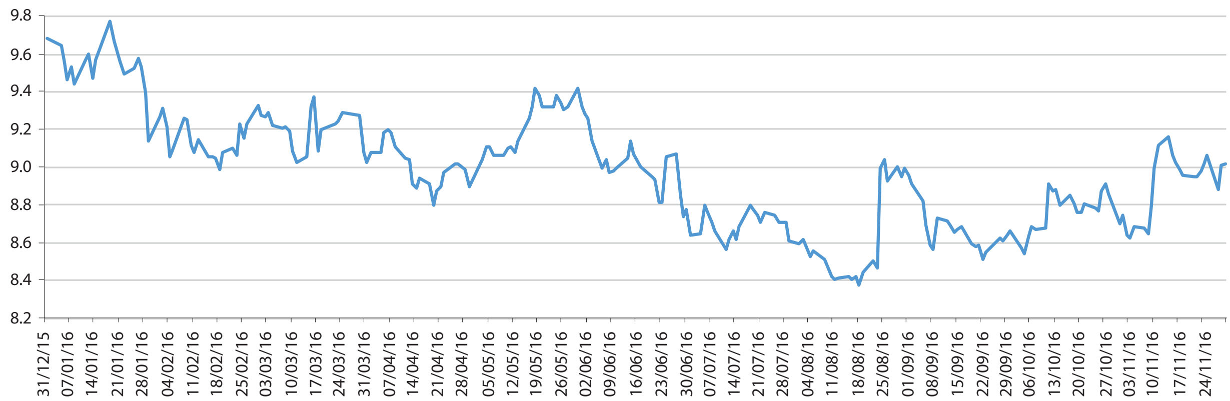
The Department of Agriculture has announced that a further R212 million will be made available to assist farmers amidst the drought. A provincial state of drought disaster has been declared in seven provinces with the Western Cape declaring a "local state of disaster" in three of its municipalities. Gauteng remains the only province that has not been classified as a disaster area.

The latest draft Integrated Resource Plan (IRP) shows that South Africa will have nuclear energy by 2037. In addition, the Department of Energy will issue a request for proposal for a nuclear build programme before the end of this year. Eskom says the build programme needs to begin in 2025.

The Reserve Bank measure of economic expectations for the next six to twelve months improved again in September. The Bank's composite leading business cycle indicator rose 1.1% in September. That followed a 0.6% increase in August.

Uncertainties continue to influence stock markets worldwide and volatility particularly in emerging markets, is making investors uneasy. Whilst it is difficult to forecast the future it does seem that bar any political upheaval the bottom of the economic cycle in South Africa has been reached and we can look forward to improving conditions going forward.

SA GOVT 10YR Bond



Source: GTC/Inet BFA

GTC fund performances - November 2016

Client Portfolios	1Year %	*2Year %	*3Year %	*4Year %	*5Year %
GTC High Equity - Provident	0.73	4.58	6.02	9.26	9.52
GTC High Equity Inflation Target CPI+5%	11.37	10.52	10.65	10.62	10.62
GTC High Equity - Pension	0.56	4.53	6.00	9.15	9.34
GTC High Equity Inflation Target CPI+5%	11.37	10.52	10.65	10.62	10.62
GTC Moderate - Provident	2.09	4.22	5.51	8.09	8.35
GTC Moderate Inflation Target CPI+3%	9.37	8.52	8.65	8.62	8.62
GTC Moderate - Pension	2.10	4.23	5.50	8.08	8.33
GTC Moderate Inflation Target CPI+3%	9.37	8.52	8.65	8.62	8.62
GTC Conservative - Provident	4.07	4.98	5.29	6.25	6.65
GTC Conservative Inflation Target CPI+1%	7.37	6.52	6.65	6.62	6.62
GTC Conservative - Pension	4.24	5.13	5.43	6.50	6.86
GTC Conservative Inflation Target CPI+1%	7.37	6.52	6.65	6.62	6.62
GTC EB Market Plus - Pension	-0.76	4.40	5.87	10.27	11.10
GTC EB Market Plus - Benchmark	-0.48	4.29	7.50	10.44	11.49
GTC EB Market Plus - Provident	-1.05	3.16	5.88	10.28	11.11
GTC EB Market Plus - Benchmark	-0.48	4.29	7.50	10.44	11.49
FTSE/JSE All Share Index (ALSI) ^	-1.59	1.74	5.27	8.74	10.54
FSTE/JSE Shareholder Weighted Index (SWIX) ^	-2.34	1.47	6.52	9.72	11.74
BEASA All Bond Index (ALBI) ^	4.51	2.15	5.16	3.93	5.59
Cash (SteFi)^	5.74	5.30	4.94	4.61	4.49
MSCI World Index (R)^	-3.50	9.93	11.37	18.13	17.55

*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 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 detraction from equity markets impacts performance but were ahead of their inflation targets over the longer term. Equity markets remain the key driver of performance.

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