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Trendline

First Quarter 2017

Global: Growth returns

A strengthening global economy, coupled with the potential pro-growth effects of President Trump's fiscal stimulus plans, continued to drive markets in the first quarter of 2017.

Global equities performed strongly with the MSCI World Equity Index returning 6.53% in Dollar terms. Likewise the MSCI Emerging Markets Index provided robust returns over the quarter returning a spectacular 11.49% in Dollar terms. Unfortunately this stellar performance did not translate into our local equity market which was beset by controversial political developments.

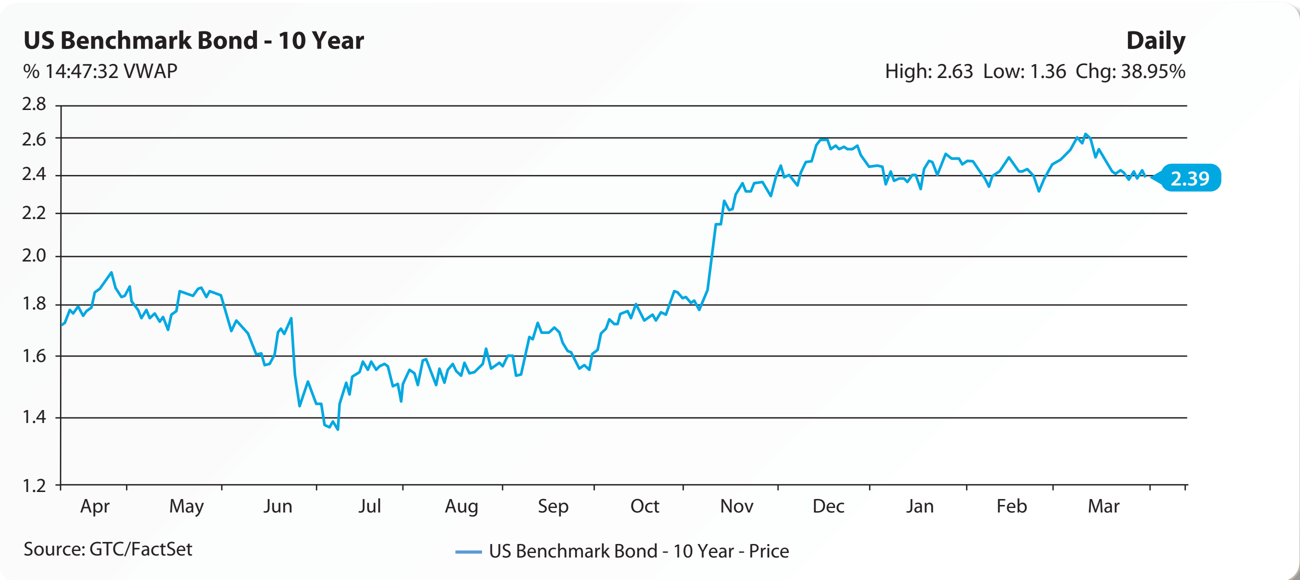
Global bond markets were impacted by the Federal Reserve's widely anticipated decision to raise interest rates by 0.25% in March, as well as an indication from the European Central Bank that it foresaw less need for an accommodative policy going forward but that it would maintain the current stimulus package until the end of 2017. What became evident from these moves was that global reflation was underway and that a shift to global monetary policy normalisation continued.

US equity markets continued to shine with the S&P500 returning a buoyant 6.1%. Incoming economic data was indicative of a growing economy with non-farm payrolls reflecting continuing increases in employment numbers.

The Conference Board consumer confidence index rose to 16 year highs at 125.6 in March; while the Supply Management's manufacturing purchasing manager's index (PMI) also indicated a resilient economy. Consumers' assessment of current business and labour market conditions improved considerably.

Consumers also expressed much greater optimism regarding the short-term outlook for business, jobs and personal income prospects. Consumers feel current economic conditions have improved over the recent period, and their renewed optimism suggests the possibility of some upside to the prospects for economic growth in the coming months.

Federal Reserve Chair Janet Yellen sought to reassure investors that the central bank's latest interest-rate increase of 25bps wasn't a paradigm shift to a trigger-happy policy driven by fears of faster inflation. Yellen said the central bank was willing to tolerate inflation temporarily overshooting its 2% goal and that it intended to keep its policy accommodative for some time. "As a result the Fed is sticking with its policy of gradually raising interest rates," Yellen said.



In their first forecast in three months Fed policy makers penciled in two more 25bps rate increases this year and three in 2018, unchanged from their projections in December. But it's not the first rate hike of 2017 that's got the Dollar falling and Treasuries rallying with equities. Instead, markets are reacting to Federal Reserve officials' forecast that rates will rise three times this year which is in line with its previous outlook. However, equities were somewhat on the back foot as the quarter ended with the inability of the administration to pass revisions to the healthcare bill - raising doubts as to the chances of Trump implementing some of his more controversial proposals. Healthcare, consumer discretionary and information technology were the best performing sectors while the energy sector's muted performance was in line with the decline in oil prices.

European markets began the quarter on a subdued note, reflecting negative returns for January, but the situation improved as the quarter progressed and by the end of March the MSCI EMU Index returned a healthy 7.2%.

Leading indicators continued to reflect an improving economic situation with the flash composite purchasing manager's index climbing to a near record 56.7 in March. The targeted inflation rate of 2.0% was achieved in February but slipped back to 1.5% in March. However the European Central Bank indicated its expectation of rising inflation rates for 2017 and 2018 and will keep existing economic stimulus measures in place till year end.

Political tensions eased with the centre-right party winning the Dutch elections from the anti EU group; and the odds of the right wing Marine Le Pen faction in France winning the election, receding. The energy sector delivered a negative return on the weak oil price and the information technology sector was the best performer. Earnings numbers continued to surprise on the upside with many firms reporting double digit earnings growth.

In the UK mergers and acquisitions continued to drive market performance with Unilever receiving a bid from its US peer Kraft Heinz, and British American Tobacco agreeing to acquire any outstanding shares in Reynolds American. Standard Life has agreed to acquire Aberdeen Asset Management.

The improving global economy was reflected in a 4.0% return from the FTSE All-Share Index. The Bank of England provided a more positive economic outlook indicating an improvement in GDP growth from the previous 1.4% to 2.0% based on a continued consumer spend. In line with its US counterparts the market marked time at the end of the quarter as the proposed Trump reflation programme ran into difficulties. Prime Minister Theresa May triggered Article 50, beginning the long and perhaps arduous task of implementing a withdrawal of the UK from the European Union.

Of particular importance for the Japanese economy was the scheduled meeting between President Trump and Prime Minister Abe in view of prior rhetoric from President Trump surrounding trade imbalances. However the meeting appeared cordial and the Japanese stock market continued to trade in a tight range, returning just 0.6% for the quarter. Corporates continued to deliver robust returns with most companies surprising on the upside but be cognisant that the benefits flowing from a weaker Yen at the beginning of the quarter have now to an extent been minimized. The best performing sectors were chemicals, paper and marine transportation.

Chinese stock markets grew strongly over the quarter, providing the best performance in almost a decade driven by continually improving economic data. Ongoing restrictions on property speculation, coupled with a reduction in capital outflows, brought more stability to the Yuan and redirected the resulting liquidity into equities. The Hong Kong market also benefited from these increased currency flows particularly now that the Southbound Stock Connect systems are functioning smoothly.

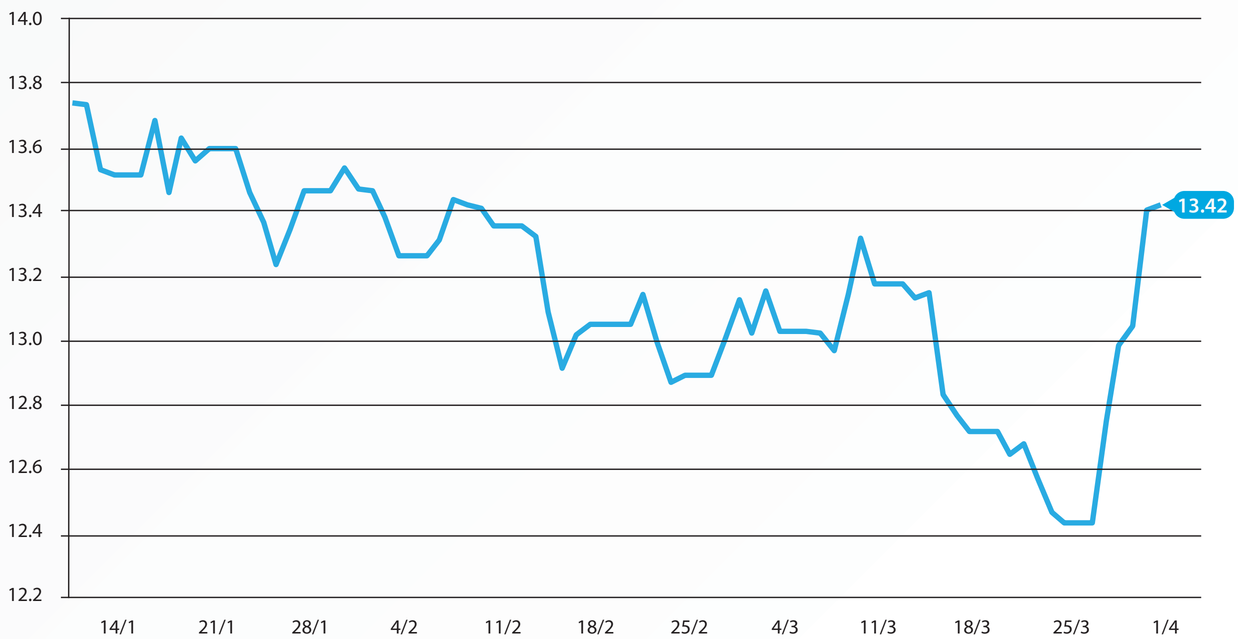
The MSCI Emerging Market Index reflected the strong gains in this sector of the market with a weaker Dollar providing an additional stimulus in terms of commodity prices. The lack of follow through on Trump's protectionist trade policies also provided additional stimulus. Russia was a clear exception to the trend as the considerably weaker oil price impacted its export revenues and resulted in negative returns.

Domestic: Adieu Pravin!

Without doubt the most significant event of the first quarter of 2017 from a South African perspective was the announcement by President Jacob Zuma, after a night of high-level political maneuvering, of a revised Cabinet.

The most concerning aspect was the axing of Pravin Gordhan, the incumbent Minister of Finance who was replaced by Minister of Home Affairs Malusi Gigaba. Gigaba was former Minister of Public Enterprises before being appointed Minister of Home Affairs.

USD/ZAR - Price



Source: GTC/FactSet

Whilst this action was not totally unexpected, the economic repercussions came thick and fast with our currency being the first casualty. Fortunately, as has happened so frequently in the past, the Rand acted as a type of shock-absorber so that the impact of the event on equity prices was muted. South African bonds weakened by between 35 and 50 basis points in the wake of the Cabinet reshuffle that sent the country's financial markets into a tailspin. The Rand gave up significant gains having reached 12.43 intra month before closing the quarter end at 13.41.

Mining production increased by 1.3% year-on-year in January 2017. The two main positive contributors were manganese ore and iron ore.

Coal was a significant negative contributor. Seasonally adjusted mining production increased by 1.7% in January 2017 compared with December 2016. This followed month-on-month changes of -0.3% in December 2016 and -4.7% in November 2016.

Manufacturing production increased by 0.8% in January 2017 compared with January 2016. Seasonally adjusted manufacturing production decreased by 0.4% in January 2017 compared with December 2016. This followed month-on-month changes of 0.2% in December 2016 and 0.3% in November 2016.

The RMB/BER Business Confidence Index increased by a miniscule two points to 40 in the first quarter of 2017. Confidence has been well below the neutral 50 mark for more than two years, a pattern consistent with an economy continuously treading water. With the exception of a few industries which are benefitting to some extent from the revival in agriculture, mining and manufacturing exports, the overriding message from the first quarter survey results would seem to be one of continuously weak underlying activity with most sectors still in a holding pattern.

Measured in real terms, retail trade sales decreased by -2.3% year-on-year in January 2017. Seasonally adjusted retail trade sales decreased by 1.2% month-on-month in January 2017. This followed month-on-month changes of -2.5% in December 2016 and 3.0% in November 2016.

In March new vehicle sales recorded a rise of 2.1% on an annual basis compared to a drop of 0.1% in the prior month. March 2017 aggregate new vehicle sales at 48 534 units had increased by 2.1% from the 47 514 vehicles sold in March last year. March 2017 export sales at 29 879 had registered a gain of 7.8% compared to the 27 720 vehicles exported in March last year.

South Africa recorded a R5.22bn trade surplus in February after a revised deficit of R11.22bn in January. This beat a Bloomberg consensus for a R1bn surplus. January's deficit was revised upwards by R0.41bn to R11.22bn. SARS attributed the February surplus to exports of R87.79bn compared to imports of R82.57bn. Exports increased by R7.57bn (9.4%) from January to February while imports decreased by R8.86bn (9.7%).

The three ministries with the most critical impact on the energy sector have all been affected significantly by the Cabinet re-shuffle, increasing the chances of the country opting for a highly controversial nuclear energy programme. The expectation is that the nuclear procurement plan will now receive the National Treasury's blessing and will be given the go-ahead. This is despite the dangerous financial burden it would impose on the country, and the massive resultant debt repayment obligations.

Pravin Gordhan had certainly been reluctant to commit to this level of capital spend and had largely kicked for touch on the issue in the budget in February, a sure sign it was something he just did not want to deal with. Now it's firmly back on the agenda. And South Africans will need to be more vigilant than ever before on the motives for its revival and the mechanics of the procurement deals and their linkages into the broader business community and vested interests.

State-owned utility Eskom which burns coal for 90% of its electricity has stalled on signing government-brokered deals to buy renewables from independents, saying it's expensive and not always available. Coal truckers in March blocked roads around the capital with their vehicles after Eskom said it won't renew their contracts because of a coal and power surplus. A union has also threatened to strike over green energy that it blames for the planned closure of five Eskom coal facilities. The recent cabinet reshuffle has left the renewable energy industry in shock as the key politicians leading the implementation of government's renewable energy independent power producer programme were removed. The moves have raised questions about the 11 April deadline for Eskom to sign outstanding and much-delayed power purchase agreements with independent power producers.

South African business conditions in March improved for the seventh month running according to the Standard Bank Purchasing Managers' Index (PMI). At 50.7 up from February's 50.5 the PMI was little changed but signalled an ongoing improvement in private sector operating conditions. The latest figure was broadly in line with the long-run survey average of 50.8 and the PMI's five components were all mildly positive in March but the pace of job creation slowed. The SACCI business confidence index fell to a level of 93.80 in March compared to a reading of 95.50 in the previous month, led by increasing political tensions.

It is without question that the passage of recent political events will have a marked effect on our economy and hence on the value of underlying stock market investments. The investment strategy adopted by GTC has been specifically designed to address just such a situation in that the diversity of the portfolios is intended to reduce risk. What the immediate future holds is uncertain, but our Investment Analytics team is closely monitoring developments and will introduce remedial action should it be required.

GTC Fund performances - March 2017

Client Portfolios	1Year %	3Year* %	5Year* %	7Year* %	10Year* %
GTC EB Conservative - Provident	4.42	5.35	6.78	6.46	6.54
GTC EB Conservative - Pension	4.39	5.29	6.95	6.73	6.73
GTC Conservative Inflation Target - CPI+1%	7.30	6.73	6.79	6.54	7.37
GTC EB Moderate - Provident	3.76	4.93	8.33	8.26	7.89
GTC EB Moderate - Pension	3.72	4.95	8.30	8.18	7.86
GTC Moderate - Inflation Target - CPI+3%	9.30	8.73	8.80	8.54	9.37
GTC EB High Equity - Provident	3.77	5.58	9.52	9.09	8.52
GTC EB High Equity - Pension	3.56	5.54	9.36	9.10	8.60
GTC High Equity Inflation Target - CPI+5%	11.30	10.73	10.80	10.54	11.37
GTC EB Market Plus - Provident	3.26	4.97	10.60	10.75	9.53
GTC EB Market Plus - Pension	2.95	4.97	10.60	10.75	9.53
GTC Umbrella Market Plus - Benchmark	2.38	6.94	11.64	10.95	8.06
FTSE/JSE All Share Index (ALSI)^	1.01	4.41	10.83	10.49	8.20
FSTE/JSE Shareholder Weighted Index (SWIX)^	0.08	5.49	11.60	11.66	8.97
BEASA All Bond Index (ALBI)^	9.38	5.86	5.79	6.72	6.46
Cash (SteFi)^	6.00	5.19	4.62	4.60	5.70
MSCI World Index (R)^	0.48	10.44	18.09	14.37	6.89

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

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

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

The **GTC High Equity Funds** (previously aggressive) are lagging their inflation targets as detraction from Equity markets impacts over the short term.

The **GTC Market Plus Funds** are lagging their targets on the back of Equity market weakness. Within our manager blend, exposure to attractive and depressed materials has detracted in the short term performance. Our manager blend has a component of protection which we feel is prudent in the current environment.

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