

# Market Update

April 2017

## Global - Growth gains momentum

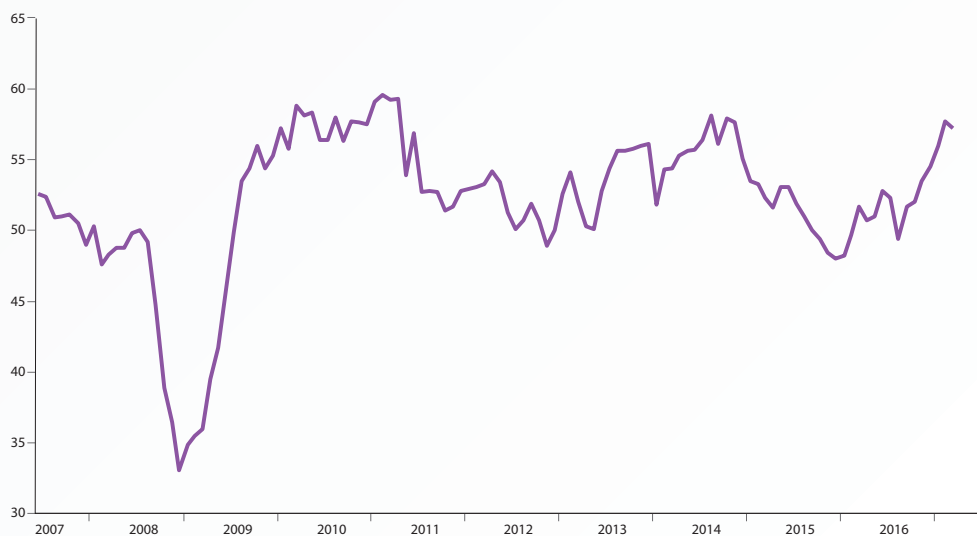
Global equities advanced in Dollar terms over a broad front during April on the back of positive economic data and a reduction in European geo-political risk as it became apparent that the French election would see the more moderate candidate emerge as the victor. The MSCI World Equity Index returned 1.53% but was outperformed by the MSCI Emerging Markets Index which returned 2.21%, both in Dollar terms. Emerging market performance was enhanced by US Dollar weakness combined with a synchronised improvement in global growth.

Despite disappointing macro-economic data, US equities continued their advance with the S&P500 returning 1.00%. First quarter GDP came in at a paltry 0.7% following on 2.1% for the previous quarter. This decline in GDP can in part be attributed to seasonal factors. However it may be the first sign that the economic future under President Donald Trump is not necessarily so bright.

Figures released by the US Bureau of Labour Statistics showed non-farm payrolls grew by just 98,000 in March, though the unemployment rate fell to 4.5%. Economists polled by Reuters suggested payrolls would increase by 180,000 in March. Wage growth was not as strong either with average hourly earnings up by 2.7% on an annualised basis.

The Institute for Supply Management reported that the purchasing manager's index (PMI) had declined from the high of 57.7 in February to 57.2. Additionally the Conference Board Consumer Confidence Indicator fell in April from its multi-year high in March. The information technology sector continued its spectacular rise with the NASDAQ Composite Index breaking through 6000 for the first time. The energy sector underperformed with the declining oil price being impacted negatively by increased US production.

## US PMI



Source: FactSet

European markets took heart from the first round victory of centrist Emmanuel Macron, signalling a stabilisation of the European Union. This was reflected in the MSCI EMU Index which returned 2.38% over the month. Economic data continued to improve with inflation rising to 1.9% in line with the European Central Bank's target of 2.0%. The ECB maintained its accommodative monetary policy while motor vehicle sales increased by 11.2% in March.

The April purchasing manager's index reflected continued expansion rising to 56.8. Industrial and consumer discretionary stocks performed well with the luxury goods counters performing strongly. The first quarter earnings outlook continues to improve with the energy sector being in negative territory.

Prime Minister Theresa May's call for a snap early election in June helped Sterling to rebound from its earlier lows but impacted negatively on the equity market as investors discounted the negative returns that a stronger currency would have on their overseas earnings. Her call for the early election was seen as boosting chances of negotiating better terms as the UK negotiated its exit from the EU.

Large Cap equities were the worst affected resulting in the FTSE 100 dropping significantly at one stage. The FTSE All-Share was down 0.4% for the month. Conversely many domestically focused mid-caps performed extremely well with the FTSE 250 returning 3.8% which was somewhat surprising given that consumer spending data reflected a decline of 1.40% for the first quarter. The slowdown in the economy was evident as GDP expanded only 0.3% in Q1 versus 0.7% in Q4 2016.

The Japanese stock market reflected the vagaries of the Yen as early April saw a decline in equity prices, which was followed by a sharp correction resulting in a total return for the month of 1.3%. Investor sentiment was largely driven by geo-political events - the escalation in tensions surrounding the North Korean situation being of particular significance. Inflation continues to dodge the monetary authorities' best efforts and remained stubbornly flat. Some improvement was seen however on the employment front. The latest report from the Bank of Japan was far more positive revising economic growth upwards.

Economic data from China remained positive, albeit reflecting a gradual slowdown in the economy as the move towards a more domestically focused consumption strategy became evident. GDP growth came in unexpectedly higher than anticipated at 6.9% for Q1, but equity markets declined on concerns that government regulators would step in to reduce undue speculation.

## Domestic - Winds of change?

Not surprisingly, following the midnight cabinet reshuffle, the expected ratings agencies downgrades followed. Fitch Ratings downgraded South Africa's Long-Term Foreign- and Local-Currency Issuer Default Ratings to 'BB+' from 'BBB-'. The outlooks are stable. The issue ratings on South Africa's senior unsecured foreign- and local-currency bonds have been downgraded to 'BB+' from 'BBB-'. That means another local-currency debt downgrade by S&P would plunge Rand bonds into junk territory and see them removed from indices including Citigroup Inc.'s World Government Bond Index. S&P's decision to downgrade SA's local-currency debt to one notch above junk and its minority foreign-currency debt to junk status has long been anticipated by markets and was largely priced in by the time it was announced.

In spite of these downgrades, the local market displayed remarkable resilience with the JSE/ALSI returning 3.38% for the month and in total return terms 3.64%. The INDI25 was the best performing major index returning 5.96% followed by the FINI15 which gained 4.09%. With global commodities under selling pressure the RESI20 returned a paltry 0.30%.

South Africa's consumer inflation eased in March as the return of rainfall following a severe drought eased food price inflation. The decline to 6.1% year-on-year in March from 6.3% in February bolstered the likelihood that the central bank will keep interest rates on hold despite recent shocks to the currency. On a month-on-month basis inflation fell to 0.6% from 1.1%. Food inflation which climbed close to 12% in 2016 continued to retreat, slowing to 8.7% on a yearly basis.

Mining production increased by 4.6% year-on-year in February 2017. The two main positive contributors were PGMs and iron ore. Coal and gold were significant negative contributors. Seasonally adjusted mining production increased by 2.9% in February 2017 compared with January 2017. This followed month-on-month changes of 2.1% in January 2017 and -0.4% in December 2016.

Motor trade sales increased by 1.4% year-on-year in February 2017. The largest annual growth rates were recorded for used vehicle sales and fuel sales. Seasonally adjusted motor trade sales increased by 1.0% in February 2017 compared with January 2017. This followed month-on-month changes of 0.2% in January 2017 and 1.6% in December 2016. In the three months ended February 2017 seasonally adjusted motor trade sales increased by 2.6% compared with the previous three months.

The International Monetary Fund (IMF) has forecast a 0.8% growth for South Africa in 2017, led by a rebound in commodity prices, easing of the drought and increase in electricity generating capacity. The Treasury forecast growth for 2017 at 1.3% and the Reserve Bank placed it at 1.2%. The global economy was set to grow 3.5% in 2017 because of buoyant financial markets and a long-awaited cyclical recovery in manufacturing and trade the IMF report said.

Manufacturing production decreased by 3.6% in February 2017 compared with February 2016. Seasonally adjusted manufacturing production decreased by 0.4% in February 2017 compared with January 2017. This followed month-on-month changes of -0.6% in January 2017 and 0.0% in December 2016. Six of the ten manufacturing divisions reported negative growth rates over this period.

The Standard Bank Purchasing Managers' Index (PMI) showed South African business conditions improved in March for the seventh month running. 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.

In spite of the uncertainties generated by geo-political machinations, world equity markets have begun to display an underlying strength which is being confirmed by improving economic data. On the local front political uncertainty continues to dog the market with the potential threat of further rating agencies downgrades creating additional concern. However, we continue to encourage our clients to remain steadfast in terms of their investment strategy. Positive winds of change appear to be on the horizon.

### SA CPI



Source: FactSet

## GTC fund performances - April 2017

Client Portfolios	1 Year %	*3Year %	*5Year %	*7Year %	*10Year %
GTC Conservative - Provident	4.90	5.51	6.82	6.55	6.32
GTC Conservative - Pension	4.88	5.47	6.99	6.82	6.51
GTC Conservative Inflation Target CPI+1%	7.13	6.48	6.68	6.50	7.34
GTC Moderate - Provident	4.86	5.28	8.47	8.40	7.67
GTC Moderate - Pension	4.80	5.26	8.43	8.32	7.64
GTC Moderate Inflation Target CPI+3%	9.13	8.48	8.68	8.51	9.34
GTC High Equity - Provident	5.67	6.14	9.73	9.33	8.21
GTC High Equity - Pension	5.44	6.10	9.56	9.28	8.28
GTC High Equity Inflation Target CPI+5%	11.13	10.48	10.68	10.51	11.35
GTC EB Market Plus - Provident	5.41	5.56	10.80	11.09	9.58
GTC EB Market Plus - Pension	5.12	5.57	10.80	11.09	9.58
GTC EB Market Plus - Benchmark	4.70	7.48	11.90	11.22	8.02
FTSE/JSE All Share Index (ALSI) ^	2.95	4.75	11.01	11.07	8.22
FSTSE/JSE Shareholder Weighted Index (SWIX) ^	2.86	6.36	11.89	12.21	8.91
BEASA All Bond Index (ALBI) ^	8.94	6.26	5.72	6.75	6.45
Cash (SteFi)^	6.03	5.24	4.65	4.60	5.69
MSCI World Index (R)^	4.36	10.56	18.59	14.37	6.84

\*Annualised

^GTC performances are shown net of all fees.

Benchmark returns include 1.5% fees

The **GTC Market Plus Funds** were ahead of their targets in the short term but lagged over the longer term on the back of equity market weakness and volatility.

The **GTC High Equity Funds** (previously Aggressive) lagged their inflation targets as short term detraction from subdued 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 were ahead of their inflation targets over the longer term.



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