Market Update

May 2017

Global - Sell in May?

The adage "sell in May and go away" certainly didn't hold true for both global and emerging markets this month as the MSCI World Equity Index returned 1.78% and the MSCI Emerging Market Index 2.80%, both in Dollar terms. Being out of the market was certainly not the right place to be. However, this unfortunately wasn't the case for the JSE/FTSE All Share Index which was most disappointing, ending the month down 0.42%.

Political events surrounding President Trump caused some unease in both domestic and global markets with his controversial dismissal of James Comey, the head of the FBI, as well as his announcement that the US was withdrawing from the Paris climate change agreement.

In spite of US GDP being revised upwards from 0.7% to 1.2% quarter/quarter, and an indication of further improvement later in the year, many forward looking economic indicators continued to disappoint.

The Institute for Supply Management announced a further decline in the PMI which fell to 54.8 in April, for the second consecutive month. The S&P 500, consisting of larger cap equities, delivered a positive return of 1.4% for the month, but this was overshadowed to an extent by the more domestically orientated Russell 2000 and 2500 declining -2.0% and 1.1% respectively.

The Eurozone markets by and large continued to improve with the MSCI EMU Index returning 1.9%. Emmanuel Macron was confirmed as the new French president which helped market sentiment, with the focus moving to Italy in expectation of early elections and the possibility of a swing to the right. Italian bond yields eased on this speculation. Utilities and telecoms were the best performing sectors, while cyclical sectors including consumer discretionary underperformed.

MSCI World vs MSCI Emerging markets - 1 Year to 31 May 2017

Source: FactSet/GTC

First quarter company earnings surprised on the upside with Eurozone GDP constant over the last two quarters at 0.5% which was in line with expectations. Inflation data suggested a decline from 1.9% in April to 1.4% in May with the unemployment rate declining marginally. The flash Eurozone composite PMI remained at a sustained level coming in at a robust 56.8, the highest level in six years.

In the UK, Sterling weakened on the perception of a close fought general election in June resulting in more difficult 'Brexit' negotiations. This boded well for the FTSE All-Share which returned 4.4% for the month. The oil and gas sectors, as well as financials, delivered strong performance whilst many domestic cyclical sectors were easier on increased domestic political uncertainty. Basic materials came under renewed selling pressure as a result of further declines in the price of iron ore as well as concerns over the sustainability of Chinese demand.

In Japan the long awaited economic recovery, spurred by reflationary Abenomics, appears to have taken hold with preliminary economic data suggesting that Q1 GDP came in at 2.2%. Forward looking economic indicators suggest that the economy is moving into a more robust phase with employment numbers continuing to improve. Company profits have surprised on the upside which was reflected in the Japanese Nikkei returning 2.4% for the month. The escalation of the North Korean impasse helped constrain positive equity market sentiment.

Asian markets continued to outperform with May delivering the fifth consecutive month of positive returns. The Chinese markets reflected solid gains as the Yuan volatility eased with the currency appreciating 1.1% against the US Dollar. This was in spite of a credit rating downgrade from Moody's and some economic data coming in below market expectations.

Throughout the ASEAN region including Thailand, Indonesia and the Philippines, markets continued to gain reflecting underlying economic growth. Against the backdrop of improving global equity sentiment emerging markets continued to outperform particularly in Korea, Hungary and the Czech Republic.

In spite of geo-political concerns global bond markets continued to improve as economic data remained mostly positive. Sovereign bond yields narrowed, aided by benign inflation data with the US 10 year treasury yield declining from 2.28% to 2.20%.

Domestic - Rating agencies call the shots!

Whilst May began on a positive note for the local market, the uncertainties surrounding President Zuma and 'State Capture', coupled with the overhang of a possible further sovereign debt downgrade as well as a sharply declining oil price, all contributed to a risk-off attitude prevailing - with the result that the JSE All Share came under considerable selling pressure.

The repo rate remained unchanged at 7% and although inflation has moderated the outlook for economic growth has deteriorated. Consumer inflation has been slowing steadily this year after spending the better part of last year outside the bank's 3%-6% target band.

Moderating food inflation has been an important factor as most of the regions hit by a severe drought have experienced relief. In addition the Rand has been relatively strong and weathered the downgrades to SA's sovereign credit rating surprisingly well with recent strength due in part to a weaker Dollar.

Annual consumer price inflation was 5.3% in April 2017, down from 6.1% in March 2017. The consumer price index increased by 0.1% month-on-month in April 2017. Food and non-alcoholic beverages, transport and miscellaneous goods and services were the main contributors to the decrease. Economists polled by Reuters had forecast a 5.5% year-on-year inflation number. South Africa's inflation rate fell within the central bank's target band in April for the first time in eight months, reinforcing chances that the rate-increase cycle has come to an end.

Mining production increased substantially at 15.5% year on year in March and 3.5% in the first quarter on the back of an improvement in commodity prices and an uptick in demand. It is the highest quarterly growth performance for the sector since the second quarter of 2016. Mining contributes just more than 7% to the GDP.

After being one of the largest negative contributors to the 2016 fourth-quarter GDP growth, the mining sector is set to be one of the largest positive contributors.

The Reserve Bank has indicated that 2017 inflation will average 5.7%, in 2018 will average 5.1% and in 2019 5.3%. Gross domestic product is now expected to grow at 1% in 2017, 1.5% in 2018 and 1.7% in 2019. South Africa's Producer Price Inflation slowed to 4.6% year-on-year in April from 5.2% in March.

Given the dire outlook for private-sector fixed investment and hence employment growth, the Bureau for Economic Research has reduced its 2017 real GDP growth forecast from about 1% to 0.6%. This is below the Reuters May consensus view that growth will average 0.9% this year. Last year growth scraped in at 0.3% having slowed every year since 2011.

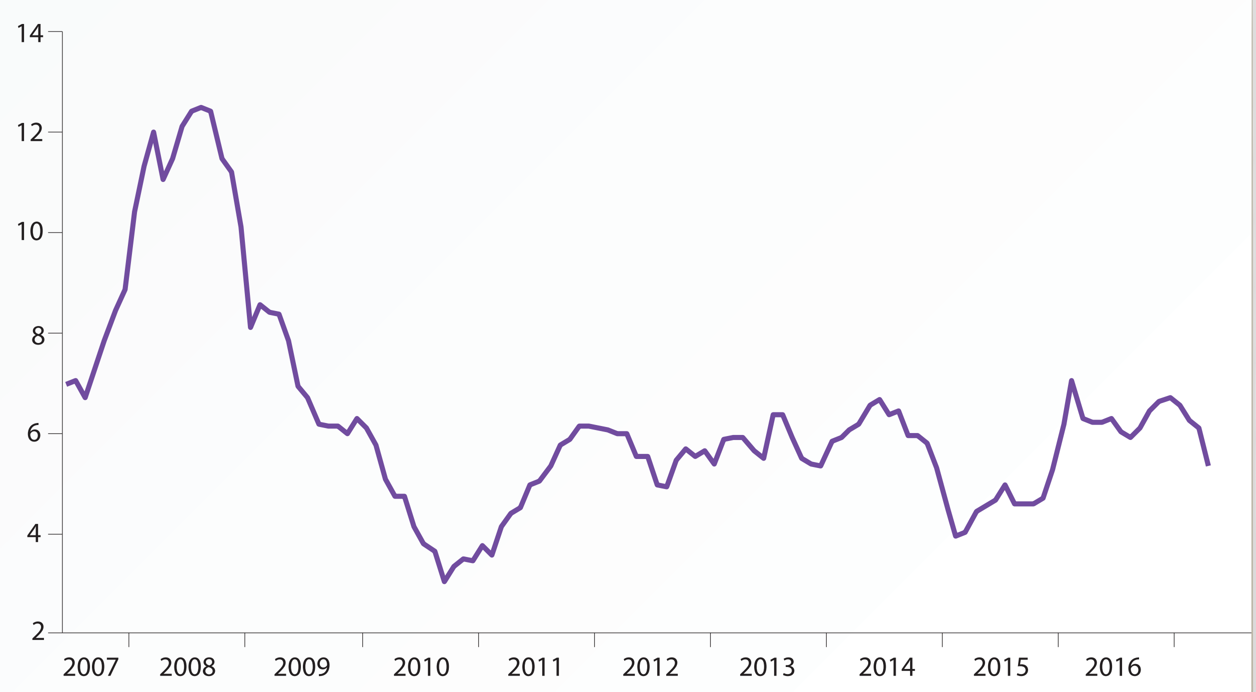
New energy Minister Mammoloko Kubayi stated that South Africa is planning to sign new and more transparent nuclear power agreements with Russia, China, the US, South Korea and France after a deal with Russia was blocked by the high court due to a lack of oversight. Eskom reinstated its former chief executive Brian Molefe who has supported the nuclear power plan. Molefe stepped down five months ago after being implicated in a report by the country's anti-graft watchdog into alleged influence-peddling. He denied any wrongdoing.

The high hopes of 37 Independent Power Producers (IPP) to have their contracts concluded with Eskom by April were dashed in the wake of the recent Cabinet reshuffle. New ministers at Treasury and the Energy Departments have forced yet another delay in the process with no new date set to sign agreements.

Complaints over the delays, initially by the South African Wind Energy Association, have led to a preliminary investigation by energy regulator Nersa. The entire IPP programme is set to attract private investment worth approximately R194 billion in predominantly rural areas creating thousands of jobs in the process.

Domestic political events as well as economic data continue to give rise to some concern as the potential uncertainties generated by such events and data translate into equity market instability. Suffice to say that short term volatility often results in investor uneasiness but the noise generated by these events is perhaps often best ignored.

South Africa consumer price inflation



Source: FactSet/GTC

GTC fund performances - May 2017

Investment Portfolios	6Mth %	1Year %	*3Year %	*5Year %	*7Year %	*10Year %
GTC Fixed Income B	4.14	8.38	7.53	6.41	6.37	7.31
Cash (SteFi)^	2.96	6.04	5.29	4.68	4.60	5.68
GTC Wealth Protector Fund of Fund B	3.78	3.62	5.71	5.87	6.91	7.68
CPI + 1% target	3.63	6.36	6.35	6.61	6.49	7.21
GTC Capital Plus Fund of Fund B	4.25	3.41	4.54	7.06	6.75	6.55
CPI + 3% target	4.59	8.36	8.36	8.61	8.49	9.22
GTC Balanced Wealth Fund of Fund	5.72	3.75	4.71	7.09	8.42	7.96
CPI + 5% target	5.54	10.36	10.36	10.61	10.50	11.22
GTC Prosperity Wealth Fund of Fund B	6.34	2.89	4.56	7.80	9.39	8.10
Composite benchmark	6.84	1.64	6.03	10.12	10.48	8.24
GTC Wealth Accumulator Fund of Fund B	6.40	0.89	2.04	7.36	8.20	6.13
FSTE/JSE Shareholder Weighted Index (SWIX)^	8.74	1.42	5.54	12.59	12.93	8.92
GTC Equity Fund Class A	6.92	-5.09	n/a	n/a	n/a	n/a
FTSE/JSE ALSI Top 40	8.54	-0.50	n/a	n/a	n/a	n/a
FTSE/JSE All Share Index (ALSI)^	7.34	0.66	4.05	11.73	11.83	7.98
FSTE/JSE Shareholder Weighted Index (SWIX)^	8.74	1.42	5.54	12.59	12.93	8.92
FTSE/JSE ALSI Top 40	8.54	-0.50	3.26	11.66	11.59	7.65
BEASA All Bond Index (ALBI)^	5.84	11.68	6.20	5.93	6.97	6.68
Cash (SteFi)^	2.96	6.04	5.29	4.68	4.60	5.68
MSCI World Index (R)^	4.71	-5.88	9.99	18.78	15.49	6.84
GTC Conservative Absolute Growth (R)	-4.86	-12.05	5.07	10.42	10.02	5.98
GTC CAG's Composite benchmark (R)^	-11.29	-22.66	3.49	9.25	9.02	6.32
$/R exchange rate	-5.52	-16.31	7.68	9.42	8.03	6.28
GTC Global Conservative Absolute Growth ($)	4.46	5.01	-0.28	3.74	3.80	0.41
GTC Global CAG's Composite benchmark ($)^	4.81	3.17	-0.31	2.05	2.50	1.13

*Performance not annualised if less than 1 year. ^Benchmark returns include 1.5% fees

Not all fund class returns are shown. Class B refers to indirect investments. *Significant strategy changes were made in September 2015, including incorporating offshore exposure. Prior to that, funds were 100% SA domestic.

The **GTC Fixed Income Fund** has delivered outperformance against the Cash (SteFI) benchmark.

The **GTC Capital Plus FoF** has shown its capital protection focus. The significant absolute return exposure ensures that the Fund captures upside equity return while focusing on avoiding losses over 12 month periods.

The **GTC Wealth Accumulator FoF** maintained a defensive stance given the high valuations in the equity market in what has been a volatile period for equity markets.

The **GTC Conservative Absolute Growth Funds** (USD) outperformed over the longer term as Emerging Markets rallied in the 'risk on' environment. It should be highlighted that investment decisions within the fund are based on long term prospects and earnings streams of individual companies, as opposed to any short term macroeconomic outlook or individual company prospects. The fund remains defensively positioned with the anticipation of continued volatility.

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