Market Update

July 2017

At a glance

- Global equity markets continued to improve on the back of positive economic data with the MSCI World Equity Index returning 2.39% in total return terms for July.
- The S&P 500 continued its rise in spite of political uncertainty surrounding the Trump camp and was supported by Dollar weakness as well as robust company results.
- Eurozone equities provided modest gains but were constrained by a strong Euro whilst being underpinned by improving company earnings.
- Resources and financials led the UK FTSE All-Share marginally higher with improving commodity prices providing impetus, while robust results from the financial sector saw demand for the underlying securities.
- The Japanese market delivered a moderate return for the month, with equity prices being considerably influenced by appreciation of the Yen, which is always regarded as a safe-haven currency.
- Emerging markets were the star performers in July with the MSCI Emerging Markets Index returning a healthy 5.96% in total return terms. Risk appetite returned as commodity prices strengthened on an improvement in Chinese economic data.
- With a more dovish attitude towards interest rate hikes in evidence on the part of major central banks, the earlier sell-off in the global bond markets which began in June was halted.
- In spite of substantial political uncertainty the JSE/FTSE posted encouragingly positive results for July, with the All Share Index returning 7.03% in total return terms and the Top40 7.65%.

Global: Economic growth positive

In the US, all three major equity indices reached all-time highs with the S&P 500 gaining 1.93%, the Dow Jones 2.54% and the tech heavy NASDAQ 3.38%. The NASDAQ gain was largely driven by spectacular results from Facebook which saw the counter return a whopping 12.10%. The market was generally spurred on by significant improvements in economic data as well as further Dollar weakness.

Evidence of continuing economic growth was confirmed with second quarter GDP coming in at a somewhat better than expected 2.6% whilst other leading economic indicators regained some of their recently lost momentum. The Conference Board Consumer Confidence Index was up significantly coming in at 121.1 following on June's 117.3. Furthermore the Institute for Supply Management's Manufacturing Purchasing Managers' Index (PMI) rose strongly in June, reaching a three year high of 57.8.

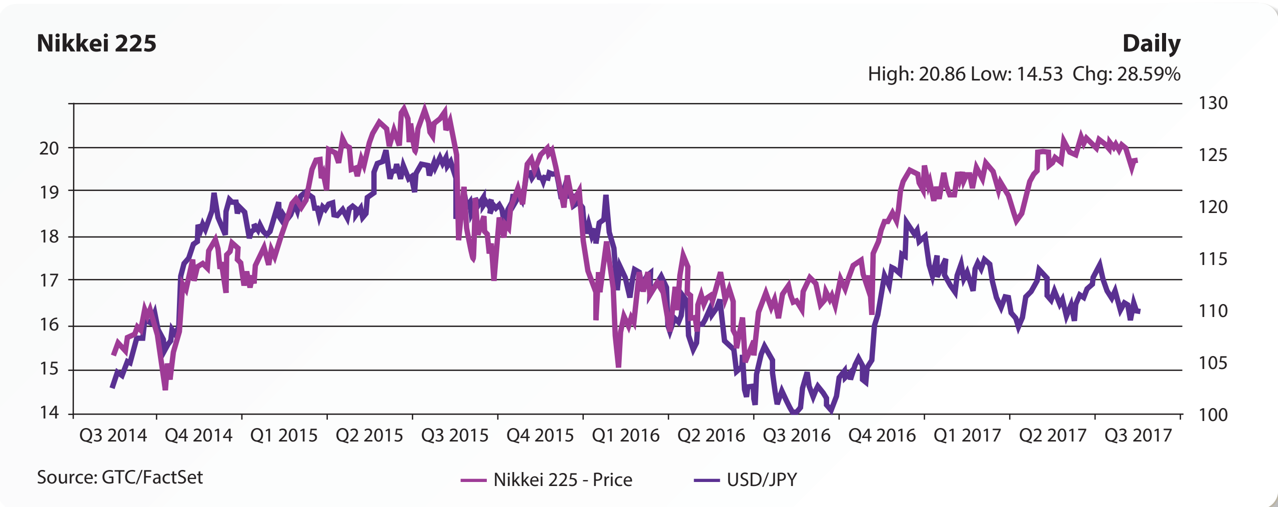
The Federal Reserve remains concerned as consumer price inflation is sluggish and well below the targeted 2%. At the July meeting of the Federal Open Market Committee the US central bank kept interest rates on hold, but indicated that it was soon to begin reducing its $4.5 trillion balance sheet.

Eurozone equities advanced marginally in July with the MSCI EMU Index up a paltry 0.3%. The possibility of the European Central Bank (ECB) reducing its stimulus measures continued to weigh on the market. ECB President Mario Draghi indicated that the ECB would consider reducing its bond buy-back programme later this year. In spite of the ECB's best efforts, inflation remained stubbornly low, running currently at around 1.3%. Economic data remained positive with the Spanish Q2 GDP up 0.9% and the French GDP up 0.5%. Unemployment dipped further in June to 9.1% from the previous month's 9.2%. The German economy continued to flourish with the business climate index reaching an all-time high of 116.0.

Following on a poor performance in June, the UK equities market improved significantly - driven largely by an improvement in resources and large-cap financials. Financials recovered on the back of robust corporate results, whilst a risk-on sentiment prevailed in terms of resources, which was based on encouraging economic data emerging from China.

Oil prices recovered following a decision by OPEC members to reduce production even further which benefitted the major oil companies such as Royal Dutch Shell.

The large tobacco groups including British American Tobacco came under significant selling pressure as the US Food and Drug Administration (FDA) signalled that it proposed reducing nicotine levels in cigarettes to non-addictive levels.



Performance of the Japanese market was tempered by Yen appreciation against the Dollar in the second half of the month, but managed to return a modest 0.4%. Economic data released during the month was roughly in line with market expectations and continued to verify positive growth. Of particular interest was the improvement in the labour market which saw the unemployment rate at its lowest level in 20 years. Inflation remained muted.

The Chinese economy remained buoyant with Q2 GDP coming in at 6.9% year-on-year, and shrugging off any attempt by the authorities to selectively tighten liquidity. Economic data continued to surprise on the upside, which was reflected in a strong move in commodity prices. Recent gains in the Yuan continued throughout the month and allayed fears of further significant currency outflows.

Domestic: Political uncertainty remains

In spite of a deteriorating political situation, the local equity market shrugged off the negativity and experienced its best month for some considerable time. The re-emergence of a risk-on attitude, particularly on the part of global investors, saw the JSE/FTSE All Share return a significant 7.03% in total return terms.

The suspension of the mining charter impacted the Mining Index which improved by a significant 17.91%. BHP Billiton returned 20.01% and Kumba Iron Ore 14.77% after it announced resumption of dividend payments. A welcome return of dividend distribution from Anglo American also cheered the market, the stock gaining 23.49%.

A negative contributor to ALSI performance was British American Tobacco which declined -7.64% as a result of the US FDA announcing plans to limit nicotine levels in cigarettes. Foreign investors continued to show interest in local bonds with the ALBI gaining 1.50% as some R10.95bn flowed into the market largely on the back of carry trades.

The 7-12 year maturity sector was up 0.76% while the shorter dated 3-7 year maturity sector gained 1.48%. The 12+ maturity sector gained 1.47% in spite of a marked steepening of the yield curve.

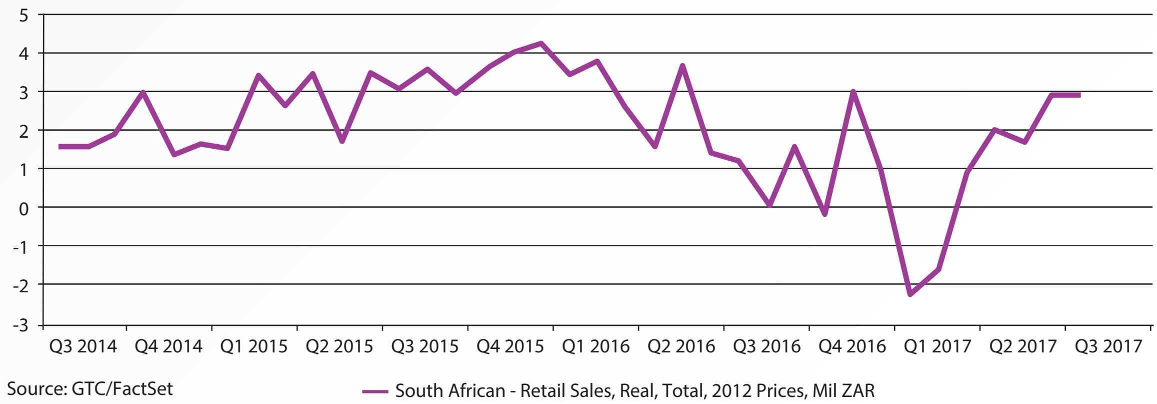
The Reserve Bank surprised the markets with an interest rate cut. While most economists had been expecting the bank to move towards a cut, it was not expected to come quite so soon.

The Bank cut the repo rate to 6.75% from 7%. The Reserve Bank also forecast inflation going forward as follows: 2017 consumer inflation will average 5.3% (May 5.7%); 2018: 4.9% (5.1%) and 2019: 5.2% (5.3%).

The headline CPI annual inflation rate in June 2017 was 5.1%. This rate was 0.3% lower than the corresponding annual rate of 5.4% in May 2017.

On average prices increased by 0.2% between May 2017 and June 2017. This decline in inflation was influential in the Reserve Bank's decision to reduce interest rates.

SA retail sales



Source: GTC/FactSet

Retail sales increased by 1.7% year-on-year in May 2017. Seasonally adjusted retail trade sales increased by 0.9% month-on-month and 1.6% quarter-on-quarter.

Only in SA does a company which reports an 83% decline in pretax profit congratulate itself on its turnaround and describe itself as being on a firm financial footing! Welcome to the world of Eskom which reported net profit of just R1bn for the 2017 financial year, down from R5bn in the previous year.

Eskom's irregular expenditure ballooned to R2.996bn this year amidst a host of disreputable actions and tenders resulting in a qualified audit report.

Manufacturing production decreased by 0.8% in May 2017, compared with May 2016 and compared to a drop of 4.1% in April.

Mining production increased by 3.6% year-on-year in May 2017, with the main contributors being iron ore and diamonds.

The consumer confidence index (CCI) sponsored by First National Bank (FNB) and compiled by the Bureau for Economic Research slumped to -9 in the second quarter, after registering -5 in the first three months of 2017.

The CCI was -5 in the first quarter of the year which was an improvement from -10 reported in the last quarter of 2016.

Market performance is to an extent driven by future economic and political perceptions and if recent performance of the JSE is anything to go by, then the improvement in the local market's fortunes bodes well for the future

GTC fund performances - July 2017

Client portfolios	10Year* %	7Year* %	5Year* %	3Year* %	1Year %
GTC EB Conservative - Provident	6.63	6.71	7.04	5.43	6.18
GTC EB Conservative - Pension	6.82	6.97	7.21	5.41	6.00
GTC Conservative Inflation Target - CPI+1%	7.10	6.52	6.63	6.33	5.98
GTC EB Moderate - Provident	8.02	8.60	8.90	4.75	6.09
GTC EB Moderate - Pension	7.99	8.52	8.86	4.73	6.03
GTC Moderate - Inflation Target - CPI+3%	9.11	8.52	8.63	8.33	7.98
GTC EB High Equity - Provident	8.66	9.78	10.37	5.65	7.19
GTC EB High Equity - Pension	8.74	9.65	10.26	5.64	7.14
GTC High Equity Inflation Target - CPI+5%	11.11	10.53	10.63	10.33	9.98
GTC EB Market Plus - Provident	9.79	11.18	11.42	5.17	7.46
GTC EB Market Plus - Pension	9.80	11.19	11.43	5.83	7.40
GTC EB Market Plus - Benchmark	8.36	11.72	11.77	6.74	4.96
FTSE/JSE All Share Index (ALSI)^	8.34	11.63	11.45	3.91	6.00
FSTE/JSE Shareholder Weighted Index (SWIX)^	9.31	12.53	11.89	4.90	3.13
BEASA All Bond Index (ALBI)^	6.92	6.39	4.53	5.70	5.57
Cash (SteFi)^	5.65	4.62	4.75	5.39	6.07
MSCI World Index (R)^	7.14	15.99	18.61	10.54	6.86

*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 real rate detraction from equity markets impacts over the short term.

The **GTC Market Plus Funds** are ahead of their targets over the short term and in line over the long term. Within our manager blend, exposure to attractive and depressed materials exposure 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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