

Market Update - Employee Benefits

April 2018



At a glance

Volatility continued to influence world markets during April, whilst geopolitical uncertainties continued to impact on investor confidence. The result was relatively poor equity performance with the MSCI World Index returning 1.2% and outperforming the MSCI Emerging Market Index, which returned a negative -0.4% both in Dollar terms.

US markets continued to deliver mediocre performance in spite of positive economic data in the form of Q1 GDP coming in at a higher than expected 2.3% against expectations of 2%.

European economic data suggests a possible slowdown in growth going forward but the Eurozone equities continued to surprise on the upside with the MSCI EMU Index returning 4.5%.

In the UK expectations of a rise in interest rates came to naught as economic data indicated a slowing economy, with GDP coming in at a miniscule 0.1%. However, a decline of 1.8% in Sterling boosted global earnings with the FTSE 100 returning 6.8%.

An easing of political tensions in the region, coupled with a decline in the value of the Yen, saw Japanese equities once again in favour resulting in a return of 3.6% for the month.

Emerging markets experienced a difficult month as resource stocks came under renewed selling pressure and were further negatively influenced by a resurging US Dollar.

Contrary to expectations, the local FTSE/JSE All Share delivered a much improved performance, returning 5.4% for the month - largely on the back of resource stocks with the FTSE/JSE Resources Index returning 8.69%. A weaker Rand helped support these gains.

Global Treasury yields continued on an upward path, spurred on by rising inflation numbers from the US suggesting a more hawkish approach to interest rates on the part of the Federal Reserve.

Global: Trumpy tweets!

US economic data continued to display solid growth with GDP for Q1 confirmed at 2.3%. This was slower than growth in Q4 but was ahead of expectations. Inflation also ticked up with the target range of 2% now in sight.

In spite of this encouraging data, equity market performance remained pedestrian because overshadowing the positive news was the proposal by President Trump that the US impose penalising trade sanctions against China.

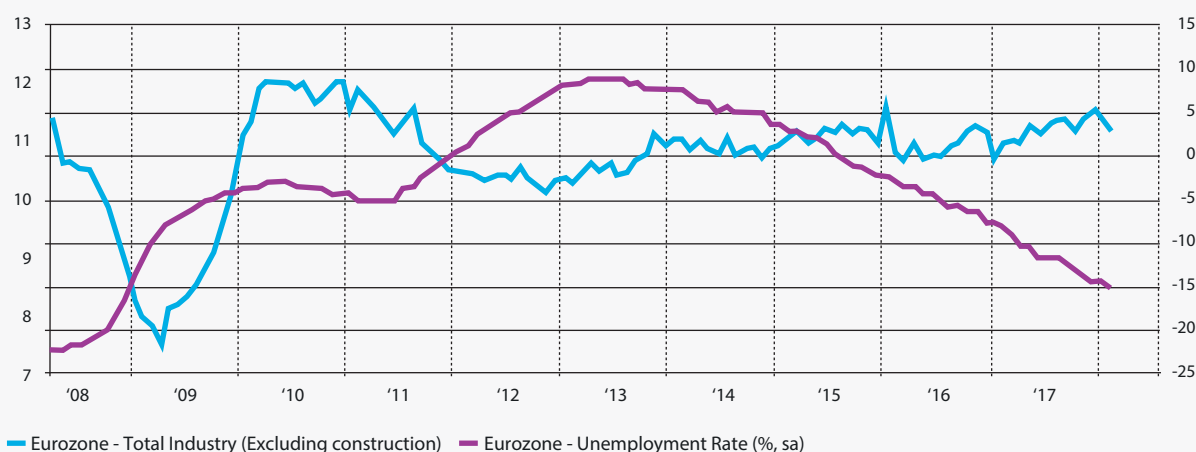
This spooked investors as the idea of a protracted "trade war" would have serious negative connotations for the US economy. The decision to enter into formal trade discussions with the Chinese has helped ease tensions and a more risk-on attitude on the part of investors has since prevailed.

US consumer confidence rebounded in April and new home sales increased more than expected in March, pointing to underlying strength in the economy despite signs that growth slowed in Q1. Other data also showed house prices increasing in February.

The Conference Board said its consumer confidence index increased to a reading of 128.7 this month, from a downwardly revised 127 in March. The index was previously reported at 127.7 in March. Confidence reached a 17-year high of 130 in February 2018.

Growth in the Eurozone seemed to be slowing, but at a marginal pace. However, temporary factors such as inclement weather and a firmer Euro possibly influenced market sentiment.

Eurozone Unemployment vs Total Industry Growth



Source: GTC/FactSet

Current economic data suggests that economic recovery is in place, with the April flash PMI coming in at 55.2 and pointing to the forecast GDP for 2018 of 2.5% being achieved. Further confirmation is provided by the unemployment rate having declined to 8.5% as well as consumer confidence rising and retail sales maintaining a healthy growth rate of 1.8% year on year.

Equities recovered from their March lows, led by energy stocks and telecoms. As expected the European Central Bank maintained its current monetary policy, with ECB President Mario Draghi citing the moderation in economic data and continued benign inflation as justification for maintaining this stance.

Sterling weakened amidst a slurry of disappointing economic data. In particular UK GDP figures for Q1 2018 of just 0.1% growth, represented the slowest growth rate since Q4 2012. Surprisingly, the FTSE All-Share was one of the best performing indices, returning 6.4% albeit from a low base as equities had experienced very poor performance in Q1 2018.

Economic data was mixed with unemployment declining to 4.2% and wage growth rising 2.8%. UK inflation declined more than expected from 2.5% to 2.3%. In light of this poor economic data, market expectations of a May interest rate increase were placed very much on the back-burner.

Geopolitical developments in the Korean peninsula had a significant impact on the Japanese equity market, which resulted in a fresh bout of foreign investment flows with the market returning 3.6% for the month. Heavy net selling of equities had been experienced for the previous three months, on the back of an ever-rising Yen, but the easing of political tensions and the setting up of the inter-Korean summit saw a reversal of this position.

A further stimulus to the market was provided by a lessening of tensions between the US and China over what had at first appeared to be a protracted trade war.

China's economy grew 6.8% in the first quarter of 2018, slightly faster than expected, buoyed by strong consumer demand and surprisingly robust property investment - despite continued measures to reduce rising home prices.

Analysts polled by Reuters had expected gross domestic product to expand 6.7% in the January-March quarter, slowing only marginally from 6.8% growth in the previous two quarters.

Geopolitical tensions in the Middle East, coupled with expectations for a decline in US stockpiles, has boosted oil to trade around \$75 a barrel.

Oil volatility rose as the conflict between Saudi Arabia and Iran-backed Houthis in Yemen worsened, raising concerns over supply disruptions in the Middle East region.

Expectations for a drop in US crude inventories added to the gains with analysts forecasting a second weekly decline.

A further contributing factor is the possibility of the US imposing sanctions should the nuclear deal with Iran be called off.

Domestic: Light at the end of the tunnel?

A plethora of encouraging economic data resulted in the FTSE/JSE All-Share delivering a solid performance for April - returning 5.4% for the month which was to a large extent driven by a resurgence in resources counters. The resources index received an additional boost from a rise in gold stocks, on the back of a renewed escalation of geopolitical risks as well as an improvement in platinum group metal prices.

The Financials Index took some strain, particularly towards the end of the month as long bond yields continued to rise which negatively affected local financial institutions.

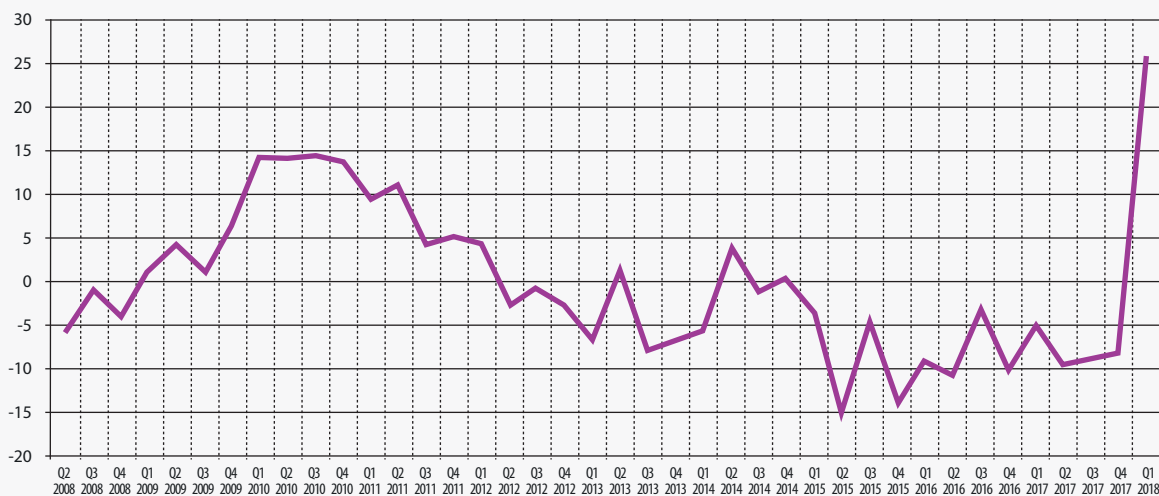
The Industrial Index enjoyed a strong month returning a useful 5.2%. This came on the back of a record consumer confidence number coupled with a set of encouraging retail sales figures. The Index was further supported by the influence of Rand hedges.

Listed property shares staged a strong recovery of some 7.7% as news of an independent review of the real estate investment trust Resilient had found no evidence of an executive breach of governance rules.

The fixed interest sector experienced significant headwinds with the All Bond Index returning a negative -0.70% while the inflation-linked Bonds fared even more badly returning a negative -3.02%.

The Rand traded considerably weaker against most major currencies but particularly against the US Dollar, declining some -5.15% while losses against the Euro and Sterling were limited to -3.1% and -3.6% respectively.

SA Consumer confidence



— South Africa – FNB Consumer Survey, BER Consumer Confidence Index, composite total net balance

Source: GTC/FactSet



Consumer confidence in South Africa touched an all-time high in the first quarter of 2018 on the back of positive political and economic developments. The consumer confidence index compiled by the Bureau for Economic Research improved to +26 from -8 in Q4 of 2017.

The extraordinary improvement in consumer sentiment this quarter can largely be ascribed to the change in the country's leadership which triggered many positive economic developments. Consumer confidence surged across all income and population groups in the period the survey showed.

The headline CPI annual inflation rate in March 2018 was 3.8%. This rate was 0.2% lower than the corresponding annual rate of 4.0% in February 2018. On average, prices increased by 0.4% between February 2018 and March 2018. This is the lowest rate for an annual CPI increase since February 2011. Retail trade sales increased by 4.9% year-on-year in February 2018.

Manufacturing output came in below expectations in February, following a run of five months of robust growth, with analysts pointing to a stronger Rand and various bottlenecks including the cost of doing business.

Manufacturing output rose 0.6% year-on-year in February, well below expectations of a 2.6% expansion, while monthly output was down 2.4%.

Mining production increased by 3.1% year-on-year in February 2018. The main positive contributors were: diamonds, iron ore, manganese and coal. Seasonally adjusted mining production increased by 0.9% in February 2018, compared with January 2018. This followed month-on-month changes of 1.7% in January 2018 and -4.1% in December 2017.

'South Africa's economic growth could pick up faster than forecast if the right structural reforms are implemented' the Reserve Bank said. That means the economy could expand faster than the 2% for 2020 that the central bank projected last month, a rate it hasn't exceeded since 2013.

The positive economic data received this month suggests that the demand side of the economy is set to continue to improve over the remainder of 2018, indeed a welcome change of fortune given the continual downturn experienced since the bottom of the business cycle in late 2013. Going forward hopefully investor patience will at last begin to be rewarded.

GTC fund performances - April 2018

Client portfolios	1 Year %	3 Year* %	5 Year* %	7 Year* %	10 Year* %
GTC EB Conservative	6.46	5.16	6.27	6.51	6.71
GTC Conservative Inflation Target - CPI+1%	4.83	6.37	6.24	6.45	6.66
GTC EB Moderate	6.54	4.35	7.66	7.92	8.72
GTC Moderate Inflation Target - CPI+3%	6.83	8.37	8.24	8.45	8.67
GTC EB High Equity	7.88	5.07	9.00	9.16	9.78
GTC High Equity Inflation Target - CPI+5%	8.83	10.38	10.25	10.45	10.67
GTC EB Market Plus	8.73	4.77	9.95	9.90	10.04
GTC EB Market Plus - Composite Benchmark	7.07	4.87	9.85	10.74	8.43
FTSE/JSE All Share Index (ALSI)^	9.81	3.72	10.10	10.19	8.17
FSTE/JSE Shareholder Weighted Index (SWIX)^	8.07	2.95	10.49	11.08	9.33
BEASA All Bond Index (ALBI)^	12.07	6.96	5.13	7.35	8.01
Cash (SteFi)^	5.84	5.66	5.06	4.74	5.43
MSCI World Index (R)^	3.01	6.10	12.83	14.40	7.09
<p>*Annualised GTC Performances are shown net of all fees ^Benchmark returns include 1.5% fees</p>					

The **GTC EB Conservative Fund** was ahead of its inflation adjusted target over one year and performing in line over longer term periods.

The **GTC EB Moderate Fund** was lagging its inflation adjusted target over the short and medium term periods due to real rate deduction from equity markets.

The **GTC EB High Equity Fund (Previously Aggressive)** was lagging over medium and longer term periods as real rate deduction from equity markets impacts.

The **GTC EB Market Plus Fund** was ahead of its target over the short and long term. Our manager blend has a component of protection which we feel is prudent in the current environment.

Contact us

Head - Investment Analytics

Clive Eggers

T +27 (0) 21 713-8500

E ceggers@gtc.co.za

Head - Healthcare

Jillian Larkan

T +27 (0) 21 412-1062

E jlarkan@gtc.co.za

Head - Employee Benefits Administration

Nadira Sarang

T +27 (0) 21 713-8500

E nsarang@gtc.co.za

Senior Consultant - Wealth Management

Jenny Williams

T +27 (0) 10 597-6840

E jwilliams@gtc.co.za

Head - Employee Benefits Consulting

Toy Otto

T +27 (0) 10 597-6861

E totto@gtc.co.za

Head - Marketing & Media

Vanessa Partington

T +27 (0) 10 597-6825

E vpartington@gtc.co.za

Managing Director - Risk Solutions

Roy Wright

T +27 (0) 21 286-0037

E rwright@gtc.co.za

Group Chief Operating Officer

Farhadh Dildar

T +27 (0) 10 597-6830

E fdildar@gtc.co.za

Group Chief Executive Officer

Gary Mockler

T +27 (0) 10 597-6831

E gmockler@gtc.co.za

Head - Finance

Andrea Diamond

T +27 (0) 10 597-6877

E adiamond@gtc.co.za

Compliance Officer

Dale Nussey

T +27 (0) 10 597-6828

E dnussey@gtc.co.za

Director - Asset Management

Manty Seligman

T +27 (0) 10 597-6800

E mseligman@gtc.co.za

formerly Grant Thornton Capital

a GTC@Grant Thornton, The Wanderers Office
Park, 52 Corlett Drive, Illovo, 2196
p P O Box 55118, Illovo, 2116

t +27 (0) 10 597 6800
f +27 (0) 10 597 6801
w www.gtc.co.za

GTC (Pty) Ltd.
reg. no. 1996/001488/07
directors G.K. Mockler, F. Dildar

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