GTC

consult • partner • manage

Trendline - Wealth management

Second Quarter 2018

At a glance

In spite of increased volatility, global equities continued to advance as sound economic data coupled with encouraging earnings numbers, vied for supremacy against the continued geo-political uncertainties surrounding the proposed US punitive tariffs being imposed on certain Chinese imports.

Developed markets continued to deliver positive returns with the MSCI World Index returning 1.7% in total return terms. This was not the case with emerging markets, as the continued threat of a global trade war resulted in a risk-off scenario which resulted in the MSCI Emerging Market Index delivering a negative -8.0% in total Dollar return terms.

The US equity market maintained its upward momentum as economic data confirmed an improving economy and as investors shrugged off any negative impact that the proposed trade war with China might have.

Eurozone equities delivered positive returns in spite of slowing economies and further political concern over unfolding events in Italy, and managed to return a positive 2.5% in total Euro return terms.

In the UK the anticipated interest rate hike failed to materialise, which resulted in a significant rise in share prices with the FTSE All-Share delivering a sound 9.2% in total Sterling return terms.

Japanese equities delivered positive returns over the quarter, aided by a decline in the Yen against a generally strong Dollar and showed a positive total return of 1.1%.

Emerging markets experienced major sell-offs as a risk-off attitude on the part of global investors prevailed, and were further negatively influenced by a rampant US Dollar.

Global bond markets were subject to considerable volatility as greater dispersion between the US and other developed markets' growth became evident, suggesting that interest rates in the US would continue their upward path.

Locally the JSE/FTSE All Share continued to offer positive returns, in spite of an emerging markets sell-off. The All Share delivered a positive 4.54% in total return terms for the quarter.

Global

Economic data from the US continued to impress on the upside, with consumer confidence remaining robust and retail sales improving after a lacklustre Q1 2018. Wage growth continued to improve and unemployment declined to an almost two decade low of 3.8%.

Not unexpectedly, the Federal Reserve increased interest rates by 25 basis points and signalled two further increases in 2018. It also forecast slightly higher rates for inflation and economic growth.

Source: GTC/FactSet

The Trump administration's move to impose punitive tariffs on certain Chinese imports tended to take a little of the gilt off the gingerbread and this, coupled with the decision to withdraw from the Iran nuclear accord, did bring about some uncertainty amongst investors. These two factors combined helped drive oil prices higher and weighed on longer term economic growth prospects. A flattening of the yield curve saw a weakening in financial stocks, while industrials eased as a result of potential trade sanctions with China.

In the Eurozone political concerns returned to unnerve markets, as it appeared likely at one stage that the inconclusive outcome of the March elections in Italy might result in a referendum on Italy's continued membership of the EU. The European Central Bank indicated that it would end its quantitative easing programme in December 2018, but would in the interim maintain interest rates at the current level, until at least the end of summer 2019.

Economic data remained positive, albeit at a slower pace than last year with GDP growth reduced to 0.4% from the Q4 number of 0.7% in 2017. The flash Eurozone composite purchasing manager's index remained positive in June at 54.8, as against the 18-month low of 54.1 seen in May. The MSCI EMU Index returned 2.5% in total return terms for the quarter.

In spite of overall sentiment towards the UK as an investment destination remaining somewhat negative, UK equities attracted considerable interest over the quarter, resulting in strong relative performance of 9.2% for the period. This return of investor confidence was further aided by the decision of the Bank of England to keep interest rates on hold, which against a strong Dollar saw Sterling decline even further. This, coupled with poor macro-economic data, resulted in the BoE reducing its GDP forecast for 2018 to 1.4% from its previous 1.8%.

The oil and gas sector of the market drew the most interest as crude oil prices continued to climb, largely due to the US decision to withdraw from the Iran nuclear accord, coupled with robust global oil demand. The possibility of a global trade war weighed negatively on financials, whilst areas exposed to emerging markets were seen as being vulnerable.

In spite of generally subdued investor sentiment towards the Japanese equity market the quarter nevertheless managed to provide a positive total return of 1.1%. This in spite of a decline seen in GDP in Q1. Japan did not escape the whims of President Trump as there is considerable consternation over the possible imposition of trade tariffs on imported motor vehicles into the US.

Whilst many Japanese motor manufacturers have already moved production facilities both offshore and into the US, motor vehicle exports still represent a significant proportion of Japan's trade balance and the supply chain implications become increasingly complex. Nevertheless for the moment inflation and industrial production numbers remain ahead of expectations.

Emerging markets experienced a torrid time over the quarter, with the MSCI Emerging Market Index down a whopping -8% in total Dollar return terms. Substantially increased Dollar strength provided a significant headwind, but the escalation of the trade tariff war between the US and China, dealt emerging markets a heavy blow as investors shied away from the potential downside impact such moves could have on the underlying equity markets.

Global bond markets experienced considerable volatility over the quarter, caused by a widening dispersion between US and global economies' projected economic growth, as well as escalating trade tensions between the US and China, and political uncertainty surrounding the future of the European Union.

US Treasury yields rose from 2.74% to 2.86%. Deutsche Bank yields declined from 0.5% to 0.3% on safe haven demand and as European data indicated a further softening. The US yield curve flattened with two-year yields rising from 2.27% to 2.53%.
The spread between two and ten year yields reached its lowest level since 2007. The Federal Reserve increased interest rates and maintained its hawkish stance.

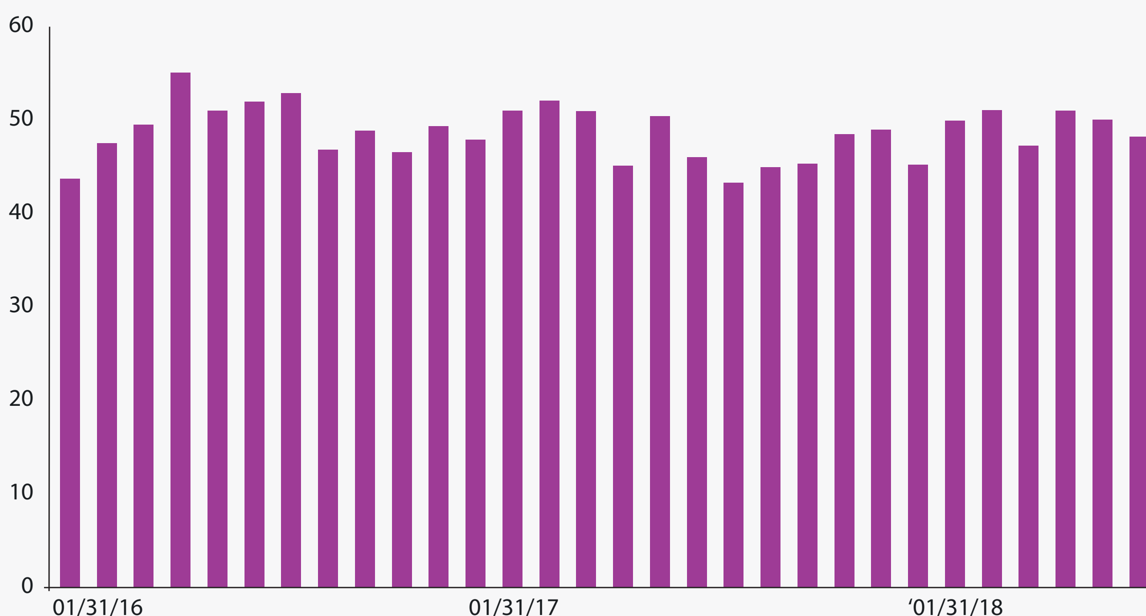
Domestic

In view of the scale of volatility experienced by the local equity market of late, it is perhaps somewhat pleasantly surprising to see that the FTSE/JSE All Share managed to return a positive 4.54% for the quarter, and that the Top40 returned 6.19% both in total return terms.

In common with other emerging markets the JSE has had to weather the storm of a rampant Dollar, which has had a significant impact on the Rand, as well as face up to the threat of punitive tariffs imposed by the US Trump administration in terms of steel and aluminium. The imposition of trade tariffs in respect of certain Chinese imports into the US has also had its negative implications for local resource companies.

SA's economy shrank by a shocking -2.2% in the first quarter of 2018, compared with the final quarter of last year with the surprisingly poor performance due to a plunge in the agricultural sector of -24.7%.

This is the largest quarterly fall since the second quarter of 2009. Economists had expected a contraction of 0.5% quarter-on-quarter. SA's gross domestic product grew 0.8% compared with the same quarter in 2017. Mining fell -9.9%, manufacturing -6.4% and construction -1.9%.



The decline in the manufacturing sector was largely due to the petrochemicals and metals subsectors. Economists had expected mining and manufacturing to weigh on first-quarter GDP performance due to a stronger Rand.

Of concern is that these are the labour-absorbing sectors of the economy.

Data from the trade and industry department showed South Africa's new vehicle sales rose 2.4% year-on-year in May. Exports jumped 13.9% compared with the same month a year earlier. A more holistic view of how the industry is performing comes from year-to-date data where total sales over the first five months of 2018 are -1.6% down compared to the same period last year.

South Africa's business confidence fell for a fourth month in a row in May, mainly due to a slide in trade activity and higher consumer inflation, following a hike in Value Added Tax. The South African Chamber of Commerce and Industry's monthly business confidence index fell to 94 in May from 96 in April. It was the lowest reading since October 2017 but only just shy of last year's average of 94.4.

Manufacturing production increased by 1.1% in April 2018 compared with April 2017. Seasonally adjusted manufacturing production decreased by -0.6% in April 2018 compared with March 2018. This followed month-on-month changes of 0.6% in March 2018 and -2.4% in February 2018. Seasonally adjusted manufacturing production decreased by -3.0% in the three months ended April 2018, compared with the previous three months.

Retail sales rose 0.5% year-on-year in April after increasing by a revised 4.6% in March. On a month-on-month basis sales fell -1.2%. Sales rose 3.1% in the three months to the end of April compared with the same period last year. Seasonally adjusted retail sales decreased by -1.2% in April 2018 compared with March 2018. This followed month-on-month changes of -0.2% in March 2018 and 1.4% in February 2018. In the three months ended April 2018, seasonally adjusted retail sales decreased by -1.2% compared with the previous three months.

SA's current account deficit widened more than expected in the first quarter of 2018, to 4.8% of GDP from 2.9% in the previous quarter and 2% the year before. According to the Reserve Bank's Quarterly Bulletin, SA recorded a trade deficit after five consecutive quarters of surpluses.

The trade balance switched from a surplus of R74bn in Q4 of 2017, to a deficit of R25bn in Q1 of 2018 due to a decrease in net gold and merchandise exports. Merchandise imports were hurt by lower export volumes and lower Rand prices as the Rand strengthened. Compared with recent years, the deficit has narrowed significantly.

The current account deficit averaged more than 5% of GDP between 2012 and 2015. The Bloomberg Consensus was for a deficit of 3.9%, while First National Bank expected a deficit of 3.1%.

The headline CPI annual inflation rate in May 2018 was 4.4%. This rate was 0.1% lower than the corresponding annual rate of 4.5% in April 2018. On average prices increased by 0.2% between April and May 2018. On a month-on-month basis inflation slowed to 0.2% in May from 0.8% in April.

The market consensus was for CPI to accelerate to 4.6%. Contributors to May's inflation include food and non-alcoholic beverages which increased 3.4% year-on-year. Inflation for restaurants and hotels increased by 5% year-on-year.

A weaker Rand and rising fuel prices suggest that any relief from the surprise slowdown in inflation in May will be short-lived. The April VAT increase will also push inflation higher in coming months, making it unlikely the Reserve Bank will be able to cut interest rates further in 2018. The Bank may have to raise rates if the Rand's 10% drop in 2018 leads to a generalised increase in prices.

Fitch Ratings has affirmed South Africa's credit rating at 'BB+' and maintained a stable outlook, citing improvement in governance and prospects of a mild cyclical recovery. Meanwhile, the agency projected the economy to grow 1.7% and 2.4% in 2018 and 2019 respectively.

However, it raised concerns over increasing debt and problems at state-owned enterprises and warned that it could downgrade if the country's fiscal deficits widened.

Emerging markets have experienced perfect headwinds in Q2 2018 with virtually every conceivable negative economic indicator pitched against them, and yet they have in some respects perhaps weathered the storm better than expected.

The global outlook going forward is to an extent clouded by the vicissitudes of the Trump administration, but nevertheless it remains quietly positive as recent domestic market robustness has demonstrated.

GTC Fund performances - June 2018

Client portfolios	6Mth %	1Year %	3Year* %	5Year* %	7Year* %	10Year* %
GTC Fixed Income Fund B	3.98	8.12	7.80	7.14	6.60	7.39
Cash (SteFi)^	2.80	5.77	5.70	5.13	4.78	5.36
GTC Wealth Protector Fund of Funds B	1.89	7.99	5.98	6.38	6.54	7.66
CPI + 1% target	3.45	5.47	6.32	6.43	6.48	6.46
GTC Capital Plus Fund of Funds B	0.33	8.39	5.37	6.47	6.67	7.60
CPI + 3% target	4.41	7.47	8.32	8.43	8.48	8.47
GTC Balanced Wealth Fund of Funds B	-0.92	9.92	5.85	7.20	7.52	8.68
CPI + 5% target	5.36	9.47	10.33	10.43	10.48	10.47
GTC Prosperity Wealth Fund of Funds B	-1.04	11.53	5.77	7.92	8.21	9.40
Composite Benchmark	-0.87	9.80	5.35	8.51	9.50	8.93
GTC Wealth Accumulator Fund of Funds B	-2.74	13.64	3.71	6.98	7.18	9.59
FTSE/JSE Shareholder Weighted Index (SWIX)^	-5.54	10.03	3.69	9.48	11.11	9.54
GTC Equity Fund Class A	-0.64	17.22				
FTSE/JSE ALSI Top 40^	-1.26	15.04				
FTSE/JSE All Share Index (ALSI)^	-2.44	13.33	5.11	9.41	10.51	8.17
FTSE/JSE Shareholder Weighted Index (SWIX)^	-5.54	10.03	3.69	9.48	11.11	9.54
FTSE/JSE ALSI Top 40^	-1.26	15.04	5.18	9.56	10.40	7.47
BEASSA All Bond Index (ALBI)^	3.19	8.56	6.17	5.79	6.62	8.14
Cash (SteFi)^	2.80	5.77	5.70	5.13	4.78	5.36
MSCI World Index (R)^	10.38	13.92	9.42	13.77	16.31	8.40
GTC Conservative Absolute Growth (R)	11.38	4.05	2.37	5.91	10.77	5.01
GTC CAGs Composite Benchmark (R)^	10.05	8.36	6.62	8.97	12.01	7.02
$/R exchange rate	10.71	4.61	3.93	6.79	10.46	5.58
GTC Global Conservative Absolute Growth ($)	-2.04	0.17	1.02	0.86	1.56	0.17
GTC Global CAGs Composite Benchmark ($)^	-0.61	3.73	2.59	1.84	1.39	1.36

*Annualised
^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** delivered outperformance against the Cash (SteFI) benchmark over all periods.

The **GTC Wealth Protector FoF** was ahead of its inflation target over the short and longer term as equity markets rerated.

The **GTC Capital Plus FoF** was ahead of its inflation adjusted target over one year, but lagging over the medium term as equity markets detracted. Equity markets remain the key driver of performance.

The **GTC Balanced Wealth FoF** was ahead of its inflation adjusted target over one year but lagging its inflation adjusted target as equity markets detracted over the medium term. Equity markets remain the key driver of performance.

The **GTC Prosperity Wealth FoF** was ahead of its inflation adjusted target over one year but lagging the inflation target over the medium term as equity markets trended sideways.

The **GTC Wealth Accumulator FoF** was ahead of its benchmark over the short term in what has been a very narrow market.

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

An Authorised Financial Services Provider
FSP. no. 731

GTC is nationally represented in Johannesburg, Cape Town and Durban

GTC Group products and services include: Employee Benefits Consulting • Employee Benefits Administration • Private Client Wealth Management • Healthcare Consulting • Short-Term Risk Solutions • Stockbroking • Derivatives Trading • Unit Trust Management • Asset Management • Fiduciary Services