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Market Update

November 2018

At a glance

World equity markets managed to claw back some of October's negative performance, with the MSCI World Index returning 1.1% which was overshadowed by improved performance from emerging markets, with the MSCI Emerging Market Index returning a commendable 4.1%.

Despite the negative implications of a protracted trade war with China, US equities continued to improve, bolstered by the Federal Reserve adopting a more dovish approach to its interest rate policy.

The continuing abrasive rhetoric emanating from the US regarding trade tariffs, weighed on European markets which were further negatively impacted by concerns surrounding the Italian budget proposals.

The possibility of a slowing global economy gave rise to a sell-off in oil and gas related counters, which resulted in UK equities delivering poor performance.

Domestic related companies remained under pressure from uncertainties surrounding Brexit.

Improved economic data flowing post the natural disasters which severely impacted the Japanese economy resulted in improved market performance with the Japanese Nikkei returning 1.3%.

Declining oil prices, coupled with the Federal Reserve's more conciliatory approach to rising interest rates, boosted global emerging markets - the majority of which delivered positive returns.

Local equities struggled with the US/China trade spat continuing to weigh and developments at all SOEs, in particular Eskom, raising investors' concerns. The FTSE/JSE All share returned a negative -3.3%.

Global - A Trump / Xi reconciliation?

In November, US equities began on a very positive note with economic data continuing to impress. US payrolls added an above expectation 250,000 jobs, with the unemployment rate remaining steady at 3.7% and the hourly wage gaining 3.1% year-on-year. The midterm election results were as expected, with the Democrats gaining control of Congress - hence the results had little impact on the overall market.

In spite of the positive economic data suggesting that the Federal Reserve might be inclined to put a foot on the brake, Chairman Powell surprised market pundits by adopting a more dovish approach and suggesting that additional interest rate hikes might be limited.

Towards month end the market experienced sharp sell-offs, particularly in the Tech and Energy sectors. Apple was amongst those counters that were hardest hit as investors absorbed the prospect of slowing earnings reflected in stretched valuations. All energy counters were impacted negatively by the sharply lower oil price.

Concerns surrounding potential trade wars and slower global growth continued to impact negatively on Eurozone equities, with the MSCI EMU Index delivering a disappointing negative -0.9%. On the political front uncertainties surrounding Brexit remained in focus, despite the EU approving the latest UK withdrawal proposals. The Italian budget proposal also remained cause for concern with the European Commission at first rejecting it.

Economic data continued to suggest a slowdown in economic growth with motor manufacturers bearing the brunt of the burden.

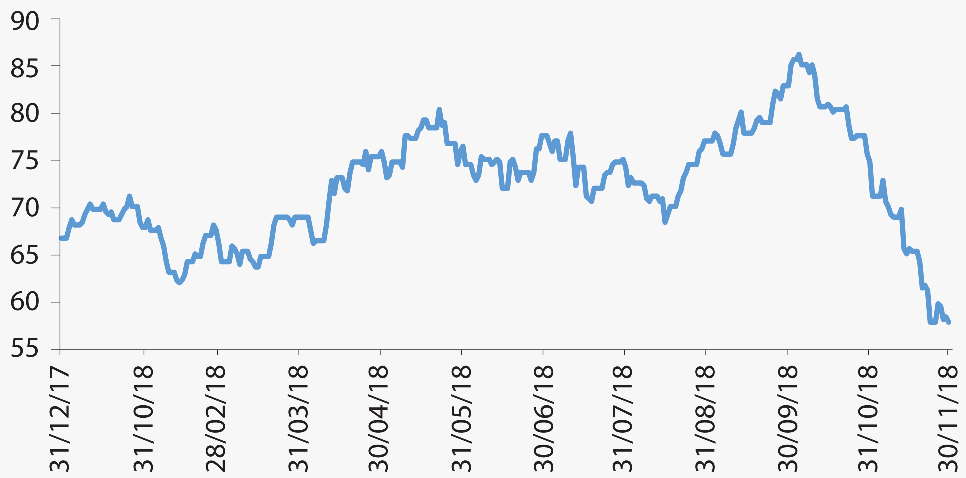
The flash PMI for November came in at a nearly four year low of 52.4. The German economy delivered negative growth of -0.2% in Q3 2018.

Overall UK equities failed to perform, with the FTSE All Share delivering a negative -1.8%. The combination of a sharply declining oil price, a proposed withdrawal from the EU which appears to be going nowhere, and concerns over a global tariff war all contributed to the disappointing performance. Global tobacco companies performed particularly poorly amid growing concerns around a US regulatory crackdown, which would include the very popular menthol cigarettes. Global oil giants came under considerable selling pressure. GDP growth for Q3 rose from 0.4% in Q2 to 0.6% as expected, while unemployment crept marginally up from 4.0% to 4.1%. Latest economic data, such as retail sales, is however pointing to an economic slowdown.

Following on a slow start to the month, Japanese markets picked up towards month end to return 1.3%. The indication that US interest rates were likely to rise more slowly helped buoy investor confidence. Latest economic data demonstrated a strong rebound from the previous month which had obviously been severely impacted by a succession of natural disasters.

Unemployment is to all intents non-existent and this should translate into higher wage growth. Share buybacks were a feature of the market. Emerging markets rallied well in November, outperforming the MSCI World Index as oil prices fell sharply and a more moderate outlook prevailed in terms of US interest rate policy. Chinese equities rose sharply in anticipation of some positive outcome from the Trump/Xi meeting at the G20. Chinese economic data continued to display a slowing down in the economy.

Brent Crude Oil price



Source: FactSet/GTC

Domestic - 2019 - hopefully a new dawn!

The local market struggled to find direction with the US/China trade spat continuing to weigh heavily on emerging markets as a whole. Coupled to this was a rising oil price as well as concern over the movement of US interest rates. Developments at all SOEs, in particular Eskom, also contributed to negative investor sentiment. The FTSE/JSE All share returned a negative -3.3% for the month, followed by the FTSE/JSE Top40 Index with a negative -3.2%.

Declining global demand for raw materials saw resource counters come under selling pressure, with the Resources Index delivering a negative -11.5%. Industrial and financial counters remained flat. The Bond market continued to attract foreign investment, with the BEASSA All Bond Index returning a positive 3.9%. Inflation linked bonds returned a negative -1.1%.

Mining production decreased by 1.8% year-on-year in September 2018. The largest negative contributor was gold and the largest positive contributor was PGMs. Seasonally adjusted mining production increased by 1.2% in September 2018 compared with August 2018.

Manufacturing production increased by 0.1% in September 2018 compared with September 2017. Seasonally adjusted manufacturing production decreased by 1.0% in September 2018 compared with August 2018. This followed month-on-month changes of 0.2% in August 2018 and 1.4% in July 2018. Seven of the ten manufacturing divisions reported positive growth rates over this period.

The Standard Bank South Africa PMI decreased to 46.90 in October, from 48 in the previous month. The reading pointed to the fourth straight month of contraction in private sector activity. Output declined the most since July 2014 and new orders dropped sharply, as foreign demand continued to fall amid Rand volatility.

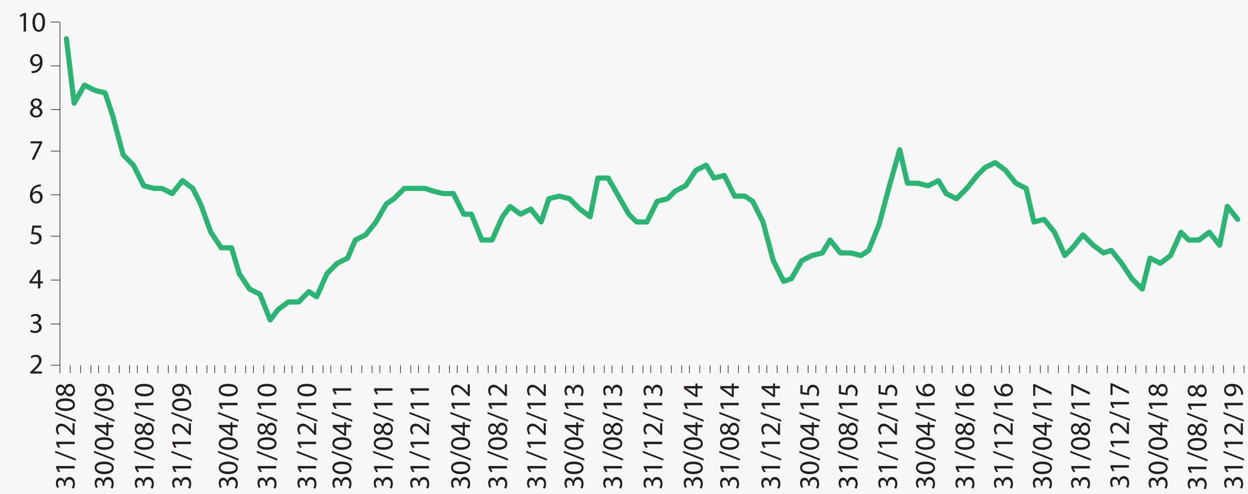
The SACCI business confidence index increased to 95.8 in October 2018, from 93.3 in the previous month reaching its highest level since April. The biggest positive month-on-month contributions came from merchandise import volumes, vehicle sales and retail sales.

Retail trade sales increased by 0.7% year-on-year in September 2018. Positive annual growth rates were recorded. The main contributor to the 0.7% increase was all 'other' retailers. September's retail sales increase by a meagre 0.7% from the same month in 2017 is less than half the economists' consensus of 1.9% according to a poll by Bloomberg.

The RMB/BER quarterly business confidence index fell to 31 points at the beginning of Q4 of 2018, from 34 points in Q3. Results from the RMB business confidence index reflect that seven out of every ten respondents remained unhappy with prevailing business conditions, while confidence continued to track below the neutral 50 mark in all the sectors.

The survey was completed shortly before the Reserve Bank raised its repo rate 25 basis points to 6.75% and the cabinet reshuffle which both occurred on 22 November.

South Africa CPI



Source: FactSet/GTC

Consumer prices increased 0.5% from the previous month in October, matching September's reading. Higher costs in the transport component drove the result amid higher oil prices. Inflation climbed to 5.1% in October (September: 4.9%), landing within the South African Reserve Bank's target band of 3%–6% but slightly below market analysts' expectations. Core inflation and annual average inflation, meanwhile, were stable from September's readings, at 4.2% and 4.6% respectively.

The SARB bank adjusted its consumer inflation forecasts as follows:

- 2018: 4.7%, from 4.8%
- 2019: 5.5%, from 5.7%
- 2020: no change at 5.4%

It is expected to peak at 5.6% in Q3 of 2019. Long-term risks to the inflation outlook include tighter global financial conditions, a weaker exchange rate, a high wage rate, oil prices and rising electricity and water tariffs. SARB raised its main interest rate for the first time since 2016, and said its model signals four increases by the end of 2020.

The annual percentage change in the PPI for final manufactured goods was 6.9% in October 2018. From September 2018 to October 2018 the PPI for final manufactured goods increased by 1.4%.

S&P Global Ratings has kept South Africa's long-term foreign currency rating unchanged at 'BB' and local-currency rating at 'BB+' citing weak economic growth and rising debt.

As we approach year end the outlook for 2019 remains clouded with uncertainty. The potential trade war between the US and China, the inability of the UK to finalise Brexit, the forthcoming local elections in May 2019, these and many other factors will contribute towards investor confidence. In spite of these uncertainties, we remain committed to our philosophy of remaining fully invested.

We wish our clients compliments of the season and we trust that 2019's market performance will surprise on the upside.

GTC fund performances - November 2018

Client Portfolios	1 Year %	*3 Year %	*5 Year %	*7 Year %	*10 Year %
GTC EB Conservative	0.39	4.52	5.08	6.10	6.93
CPI+1%	6.35	6.48	6.41	6.45	6.25
GTC EB Moderate	-3.25	3.18	4.80	7.01	8.76
CPI+3%	8.35	8.49	8.41	8.46	8.25
GTC EB High Equity	-7.51	2.44	4.93	7.71	9.36
CPI+5%	10.35	10.49	10.41	10.46	10.25
GTC EB Market Plus	-7.97	2.05	4.98	8.92	9.84
Composite benchmark	-7.91	2.67	6.16	9.35	9.89
FTSE/JSE All Share Index (ALSI) ^	-13.87	0.78	3.94	8.03	10.67
FTSE/JSE Shareholder Weighted Index (SWIX) ^	-15.59	0.19	4.47	8.71	11.36
BEASSA All Bond Index (ALBI) ^	11.38	6.71	6.22	6.22	6.74
Cash (SteFi)^	5.72	5.82	5.31	4.88	5.17
MSCI World Index (R)^	0.28	4.23	10.14	14.84	10.71

*Annualised

^GTC performances are shown net of all fees.

Benchmark returns include 1.5% fees

The **GTC Conservative Fund** lagged its inflation adjusted target over the short term and performed in line over longer term periods.

The **GTC Moderate Fund** lagged its inflation adjusted target over the short and medium term periods as real rate detraction from equity markets impacted.

The **GTC High Equity Fund** (previously Aggressive) lagged its inflation adjusted target as real rate detraction from equity markets impacted.

The **GTC Market Plus Fund** lagged its benchmark as real rate detraction from equity markets impacted.

Our manager blend has a component of protection which we feel is prudent in the current environment.

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