

Trendline

First Quarter 2019 - Employee Benefits



At a glance

Recovering from a dismal 2018 global equity markets performed well in Q1 2019 as major concerns over declining world trade eased. The MSCI World Index comfortably outperformed the MSCI Emerging Market Index with the former returning 12.5% and the latter 9.9% both in total Dollar return terms.

US equities experienced a strong quarter largely due to a decidedly dovish approach from the Federal Reserve as regards interest rate policy and an easing of tensions in the US/China trade dispute. The S&P 500 returned a most welcome 13.7%.

The Eurozone equity markets continued to surprise helped along by accommodating central bank monetary policy but were nevertheless subject to growing concerns over economic growth, particularly in Germany. The MSCI EMU returned 9.9% in Dollar terms.

Despite the uncertainties surrounding the Brexit issue, UK equity prices continued to improve, driven to an extent by volatility in Sterling and the hope that a positive resolution to the Brexit crisis would be forthcoming. The FTSE All Share returned a positive 11.9% in Dollar terms.

Marked volatility in the Yen market was a major contributor to Japanese market performance in the early part of 2019 but the currency weakened over the quarter and the Nikkei managed to return 7.7% for the period.

Emerging markets delivered a strong performance in Q1 led by a significant turnaround in Chinese equity markets that welcomed the improving situation in the US/China trade talks. Chinese government economic stimulatory measures provided further market impetus.

Domestically the FTSE/JSE All Share improved in line with global equity markets but positive performance was mainly restricted to dual listed Rand hedge counters. The FTSE/JSE All Share returned 8.0%.

Global - Markets rally

US

From a low base at the end of 2018, US equities delivered a robust performance over the quarter with January providing the major impetus. This was as a result of the Federal Reserve Bank announcing its intention to adopt a far more dovish approach to interest rate rises to compensate for a slowing economy.

The Federal Reserve further confirmed this new interest rate stance as the quarter progressed and economic data positively confirmed slower economic growth. Of significance was Q4 GDP being adjusted downwards to 2.2% from an initial 2.6%. Positive developments in Chinese/US trade talks also cheered the market.

US markets quietened towards the end of March as the Federal Reserve lowered its projected rates for US inflation and growth and reduced its expectations for interest rate hikes to reflect no increases for this year and one possibly for 2020.

Predictions for future economic growth caused the treasury yield curve to invert which is considered an indicator of a future recession. Federal Reserve officials indicated they are unlikely to raise interest rates this year and may have completed the series of increases they began more than three years ago. The Fed left its policy rate unchanged in a range between 2.25% and 2.5%.

The number of Americans filing applications for unemployment benefits fell more than expected, pointing to still strong labour market conditions. Initial claims for state unemployment benefits dropped by 9,000 to a seasonally adjusted 221,000 for the week ended March 16. Economists polled by Reuters had forecast claims falling to 225,000. Claims have been drifting in the middle of their 200,000-253,000 range this year.

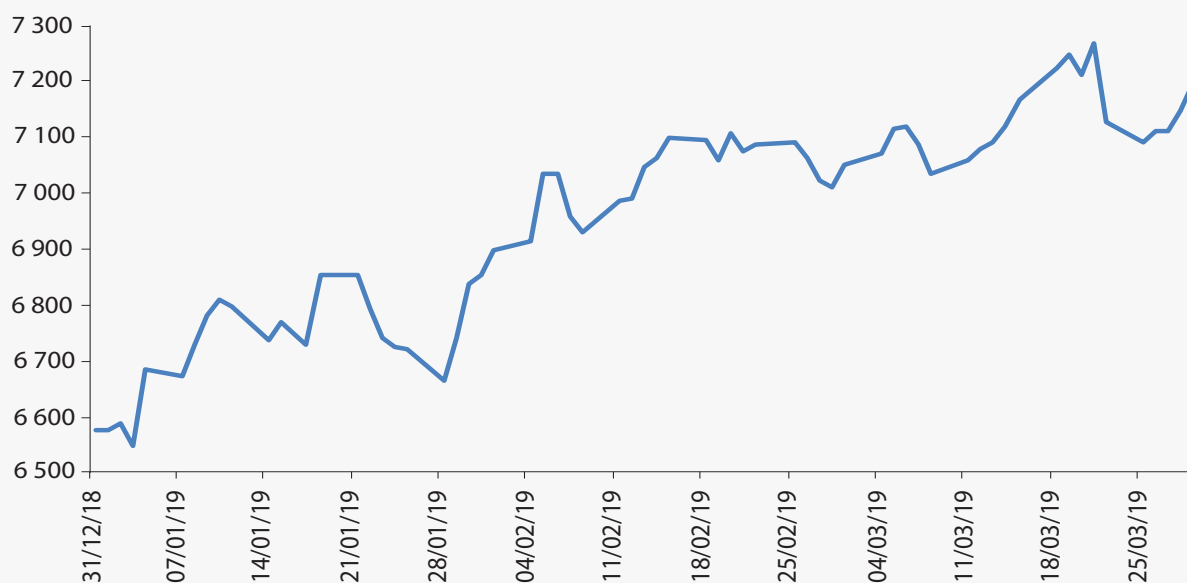
Eurozone

In line with global equity markets, Eurozone equities posted strong gains in Q1 2019. The decision by the US Federal Reserve to postpone interest rate increases for the rest of the year and the European Central Bank's decision to maintain rates at current levels, provided the necessary catalyst for markets.

Optimism over a solution to the US/ China trade impasse also helped improve market sentiment. Market performance was largely sector driven with industrials and information technology being the best performers along with consumer staples. The announcement by the European Central Bank that it was to incentivise bank's lending programmes led to an initial spurt in banking stocks. However this soon fizzled out as the details were not as encouraging as first thought.

In spite of the market improvement, economic data continued to relay concerns regarding economic growth with Q1 GDP coming in at a measly 0.2%. Of particular concern was the zero growth number from Germany and the Italian economy sliding into recession. Forward looking economic data, particularly in the manufacturing sector, suggested a significant slowdown with the PMI declining from February's 49.3 to 47.6 in March.

FTSE ALL-Share - Total return



Source: FactSet/GTC

UK

In spite of a slowdown in the UK economy in Q4 2018 on the back of the uncertainties surrounding Brexit, UK equities improved considerably in 2019 in line with global equity markets with the FTSE All Share returning a total of 9.41%. GDP growth declined from 0.7% in Q3 2018 to 0.2% in Q4 with annual growth for 2018 coming in at 1.4% which was the lowest rate for some time.

Presuming a somewhat orderly Brexit process, the Bank of England reduced its GDP number for 2019 to 1.2% from the previously tabled 1.7%. In spite of concerns regarding global economic growth equities continued to attract investors particularly those with considerable offshore earnings capabilities. Employment numbers continued to surprise on the upside with real wages continuing to improve and inflation remaining somewhat muted.

Japan

Considerable volatility was a hallmark of the Japanese equity market during Q1 2019 with some extraordinary swings being experienced late in 2018 and in early 2019. The Japanese Yen continues to attract considerable currency flows during times of economic uncertainty and this has a significant impact on equity performance.

As the interest rate scenario unfolded in the US with a distinct downward trend in evidence, Japanese investors sought out stable, bond type investments to underpin their investment strategies. The Yen weakened against most currencies by March month end after a roller coaster ride earlier on in the quarter.

Economic data remained in line with expectations with inflation slightly ahead of forecasts. The latest Bank of Japan's Tankan quarterly economic survey indicated a slowdown in large scale manufacturing but this was expected given the prevailing global economic conditions.

Emerging Markets

In line with global markets, emerging markets delivered strong returns in Q1 2019 with the MSCI Emerging Market Index delivering a 9.9% total return. Chinese equities led the pack boosted to a large extent by the US decision to delay the imposition of punitive tariff hikes on \$200 billion of Chinese goods.

A further catalyst for the market came in the form of the Peoples Bank of China indicating its intention to provide significant stimulus to the local economy. This was to take the form of higher government spending, significant tax cuts and the reserve requirement for commercial banks being reduced.

Furthermore, the announcement by MSCI to quadruple China "A" shares in the MSCI Emerging Market Index between May and September resulted in significant gains for these counters.



Local - Improving outlook

The SA equity market as a whole experienced a positive change in fortune in Q1 2019 but unfortunately underperformed global markets with performance being very sector specific. The Resources Index was by far the best performer followed by Rand hedges such as Naspers and Richemont.

Resources returned 16.2% while Industrials delivered 7.4% followed by a poor performance from financials which delivered a negative 0.4%. Star performers in the resources sector were Anglo American which delivered 21% and BHP Billiton which delivered 16%. Equities with a more domestic bias fared badly with the likes of Mr Price, Massmart, Truworths and Shoprite all feeling the effects of a slowing economy.

SA's minister of finance Tito Mboweni presented a defensive budget taking into account the country's economic realities. What is patently evident is that SA's lack of economic growth is negatively impacting tax revenue. In 2018/19 tax revenue was R42.8 billion less than budgeted. Without higher economic growth the country will struggle to generate the revenue it needs to make structural changes. There were no big tax shocks but there was no compensation for bracket creep.

A rescue plan for power utility Eskom calmed investors as it appeared to avert a South African credit rating downgrade from Moody's Investors Service, at least for now. Eskom will receive a R69 billion cash injection over the next three years to help service its debt.

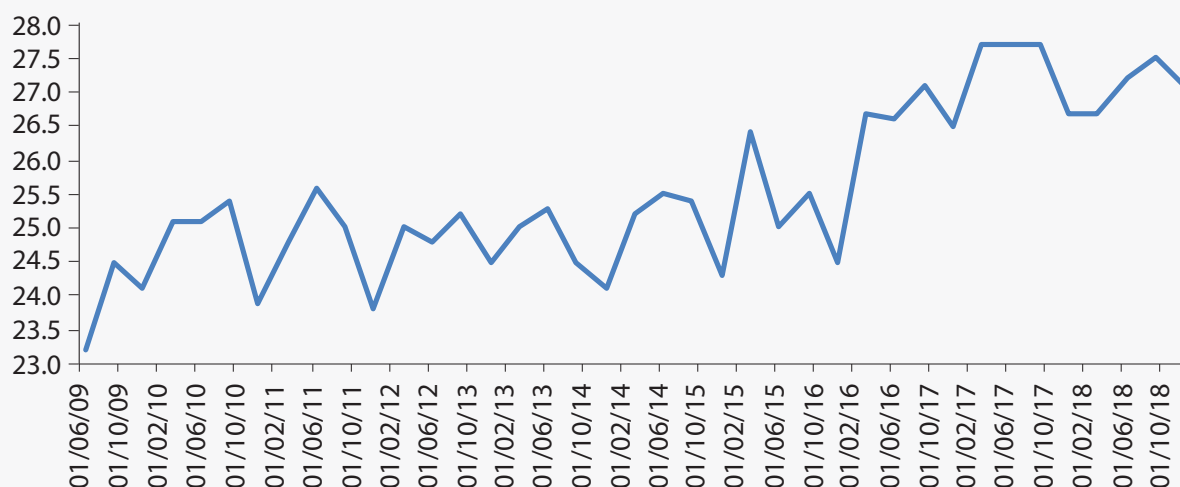
Naspers said it planned to list its non-SA internet operations in Amsterdam, including its prized stake in China's Tencent. The company said it wanted to list those assets on the Euronext Amsterdam exchange with a secondary listing on the JSE. The entity was likely to be the largest listed consumer internet group in Europe by asset value.

South Africa's gold and platinum mines will shed around 90 000 jobs in the next three years as above-inflation electricity price increases by Eskom add to already soaring operating costs the Minerals Council said.

Q4 2018 data from Statistics SA showed an increase in South Africa's employed workforce by 87 000 quarter-on-quarter. The major contributors to employment included business services, trade, community services and transport industry.

Employment however decreased in the construction, mining and quarrying, manufacturing and electricity industries.

South African unemployment rate (%)



Source: FactSet/GTC

The board of SA National Roads Agency (Sanral) has resolved to suspend the process of pursuing e-toll debt with immediate effect. This includes historic debt and summonses applied for from 2015, the agency said.

South Africa's headline consumer inflation rose to 4.1% year on year in February from 4.0% in January.

On a month-on-month basis prices rose 0.8% from a 0.2% decrease in the previous month. Core inflation, which excludes the prices of food, non-alcoholic beverages, petrol and energy, was at 4.4% year on year in February, unchanged from January.

Standard Bank will cut around 1,200 jobs and close 91 branches as part of efforts to digitise its retail and business bank. South African lenders, like others around the world, have been closing branches and trimming their headcount in an attempt to cut costs and adapt to customers' growing preference to bank online or on their mobile phones.

Foreign direct investment more than doubled in 2018 to a five-year high, giving President Cyril Ramaphosa's investment initiative a much-needed boost. FDI increased from R26.8bn in 2017 to R70.7bn in 2018, according to the Quarterly Bulletin released by the Reserve Bank. The last time FDI was this high was in 2013 when it reached a record high of R80.1bn.

Business confidence declined to its lowest level in almost two years. The business confidence index fell by three points to 28 in the first quarter of 2019. This is the lowest level since the second quarter of 2017 when President Jacob Zuma fired Pravin Gordhan as finance minister, which saw S&P Global Ratings and Fitch Ratings cut the country's debt to sub-investment grade.

South Africa's headline consumer inflation fell to 4.0% year on year in January from 4.5% in the previous month, data from Statistics South Africa showed. On a month-on-month basis, prices fell 0.2% in January from a decrease of 0.2% in December.

Manufacturing production increased by 0.1% in December 2018 compared with December 2017. This followed month-on-month changes of 0.4% in November 2018 and 1.2% in October 2018. Mining production decreased by 4.8% year-on-year in December 2018. The negative contributors were: gold, iron ore and 'other' metallic minerals. Total mining production was 1.6% lower in 2018 compared with 2017.

Whilst market performance globally and domestic has been encouraging, it must be remembered that we are coming off a very low base. Considerable headwinds will continue to influence market performance not least of which are concerns surrounding stagnating global growth together with disruptive trade wars.

On the domestic front the upcoming general elections outcome in May is likely to have a significant impact on the stock market as well as on the perception of future economic growth on the part of foreign investors. Foreign direct investment is a crucial component of future domestic economic performance.

Foreign direct investment is a crucial component of future domestic economic performance. The GTC Investment Analytics team is cognisant of the fragility and uncertainty of markets going forward and have positioned the relative portfolios to cater for just such an eventuality.



GTC fund performances - March 2019

Portfolios	1Year %	*3Year %	*5Year %	*7Year %	*10Year %
GTC EB Conservative	6.50	5.60	5.69	6.61	7.17
CPI+1%	5.27	5.83	6.07	6.31	6.26
GTC EB Moderate	5.58	5.01	5.21	7.55	9.34
CPI+3%	7.28	7.83	8.08	8.31	8.26
GTC EB High Equity	5.16	4.95	5.56	8.37	10.23
CPI+5%	9.28	9.83	10.08	10.31	10.26
GTC EB Market Plus	4.44	4.90	5.27	9.18	11.01
Composite Benchmark	4.67	4.45	6.43	9.90	11.08
FTSE/JSE All Share Index (ALSI) ^	3.48	4.11	4.93	9.34	12.30
FTSE/JSE Shareholder Weighted Index (SWIX) ^	-1.07	2.19	4.60	9.15	12.54
BEASSA All Bond Index (ALBI) ^	1.92	8.48	6.73	6.43	7.05
Cash (SteFi)^	5.75	5.87	5.44	4.96	5.03
MSCI World Index (R)^	24.75	6.93	10.39	15.82	13.15

*Annualised

^GTC performances are shown net of all fees.

Benchmark returns include 1.5% fees

The **GTC Conservative Fund** outperformed its inflation adjusted target over one year and marginally lagged over the medium term periods. Equity markets remain the key driver of performance.

The **GTC Moderate Fund** lagged its inflation adjusted target as equity market detracted over the short and medium term. Equity markets remain the key driver of performance.

The **GTC High Equity Fund** (previously Aggressive) lagged its inflation adjusted target as equity market detracted over the short and medium term.

The **GTC Market Plus Fund** marginally lagged its target over the short term and inline over the 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 andread@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, 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 of 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