Trendline

Second Quarter 2019 - Wealth Management

At a glance

Following a major sell-off in May, developed equity markets staged a welcome recovery towards the end of the quarter with the MSCI World Equity Index returning 4% in total return terms. MSCI emerging markets however did not fare as well, delivering a meagre 0.6% as trade uncertainties continued to negatively impact market performance.

Developed markets led the performance stakes as the Federal Reserve, as well as other major central banks, adopted a more dovish approach and indicated credit easing going forward.

Eurozone equities were subject to significant volatility, performing well in March and June but experiencing significant declines in May. The soon to be outgoing President of the European Central Bank, Mario Draghi suggested further monetary policy easing.

In spite of the uncertainties surrounding Brexit and the resignation of Theresa May, UK equities performed well over the quarter with the FTSE All-Share returning 3.3% in total Sterling return terms.

As a consequence of its currency being regarded as a safe haven in times of geopolitical uncertainty, the Japanese Yen strengthened considerably which had a significantly negative effect on equity performance with the Nikkei returning –2.4% for the quarter in local currency terms.

The local equity market was subject to the vagaries of international as well as domestic economic and political events, with the FTSE/JSE All-Share Index returning 3.9% on a total return basis for the quarter, while bonds gained 3.7%. The SA Listed Property Index returned 4.5%, and cash 1.8%.

On the back of potential credit easing, global government bond yields declined significantly, whilst corporate bond yields delivered positive returns.

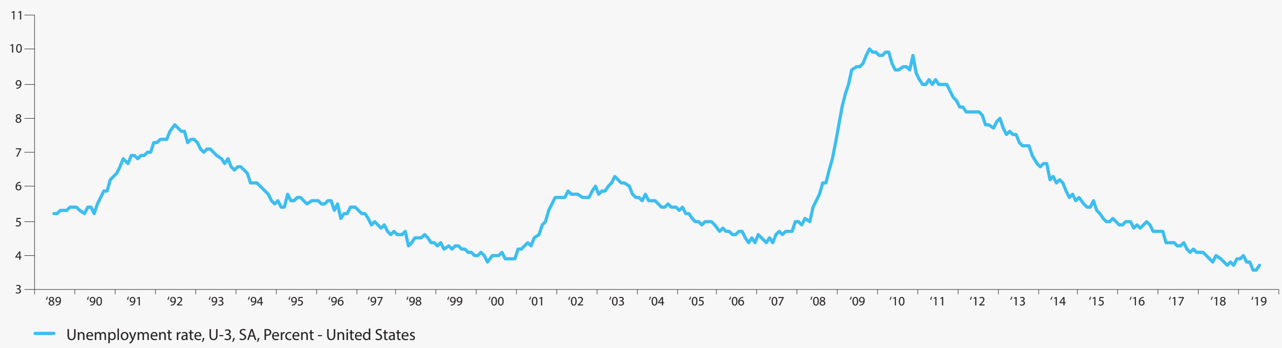
Global - A tenuous tariff peace

United States

A plethora of threatening trade tariff tweets, directed primarily at China and Mexico - emanating from the White House - continued to impact significantly on stock market sentiment. However, in spite of the considerable volatility that ensued towards month end, evidence of a more dovish approach to interest rates spurred the market on with the S&P 500 recording all-time highs by quarter end.

The US government increased tariffs on an additional $200 billion of Chinese goods from 10% to 25% with China responding with a tariff hike on $60 billion of US imports. Furthermore, the US administration imposed further punitive measures on the Chinese tech-giant Huawei as well as threatening to impose a 5% tariff on all imports from Mexico. These tariff increases were put on hold following the meeting between President Trump and Chinese President Xi Jinping at the G20 summit in Osaka, Japan on the understanding that negotiations between the waring partners were set to resume.

US unemployment rate



Source: FactSet/GTC

Economic data continued to send mixed signals with the Q1 GDP being revised slightly downwards from 3.2% to 3.1% as was expected. Employment data continued its firmer trend despite a slowing in June, with the unemployment rate remaining at a long term low of 3.6%. Growth in hourly earnings improved slightly to 3.1% from an expected 3.2%.

US consumer confidence declined to a 21-month low in June as households grew more pessimistic about business and labour market conditions, citing concerns about a recent escalation in trade tensions between the United States and China.

New orders for US manufactured durable goods declined 1.3% in May 2019, after a revised 2.8% decline in April and worse than market expectations of a 0.1% drop.

Contrary economic indicators were evidenced by both consumer and business confidence waning while economic survey data was indicative of a slowing economy. This induced the Federal Reserve to indicate its willingness to reverse its previous stance regarding interest rates and to suggest that it would provide a more accommodating attitude going forward. This more dovish approach suggested a possible interest rate cut by the Fed at its July FOMC meeting and was very well received by the market.

Those sectors of the market more geared to cyclical influences performed strongly with financials and information technology leading the pack. Energy stocks declined generating negative returns while the more defensive areas of the market only made modest gains.

Eurozone

In line with other global markets, Eurozone stocks came under considerable selling pressure in May, as fears of a global economic slowdown were exacerbated by increasingly hostile rhetoric between the USA and China over possible punitive trade tariffs. In Q1 GDP growth came in at a modest 0.4% q/q while inflation remained constant at 1.2%.

Forward looking, economic data remained mixed with some indicators pointing decidedly downwards. This resulted in European Central Bank President Mario Draghi, indicating that further monetary policy easing was on the cards, should the current rate of inflation persist and that this could result in the bond repurchase programme being reintroduced. In spite of some negative economic data, June PMI came in at an unexpected seven month high of 52.1, signaling continued economic expansion.

Eurozone equities continued their advance with industrial, consumer and information technology being the best performers. Car manufacturers and microchip producers remained under pressure from President Trump's suggested increased tariffs. A more congenial investment climate in June helped stabilise equity markets.

UK

In spite of the continuing uncertainties surrounding the unsettled Brexit debacle, as well as the resignation of Theresa May, UK shares performed well over the quarter with shares enjoying offshore earnings continuing to extend their run of outperformance. Not unexpectedly, those companies with a more in-ward looking bias tended to underperform.

Nevertheless, the implications of the proposed Brexit implementation began to impact specifically on the manufacturing sector. This was certainly evidenced during the month of April, when the economy shrank by a somewhat alarming -0.4% directly as the result of a sharp reduction in motor vehicle production. However, conditions did improve latterly with Q1 GDP coming in at a somewhat tepid 0.5%. The significance of the potential slowdown in the UK economy was further highlighted with Markit's May manufacturing PMI coming in at below the 50 level for the first time since July 2016.

Japan

Yen strength has always been somewhat of a mixed blessing for Japan as economic uncertainty leads to a substantial influx of funds seeking a safe haven to the detriment of Japan's export market. This quarter saw a significant inflow of funds seeking safe-haven status and partly in anticipation of a changing interest rate expectation in the US.

Economic data was somewhat mixed but GDP for Q1 2019 came in at a surprising 2.1% whilst consensus was for a negative number. This augers well for Japan as it is likely to avoid a technical recession. However, the continuing threat of additional trade tariffs being levied on Chinese goods by the US, is already impacting on the Japanese economy. In particular, the US campaign against Huawei is impacting global supply chains and consequently Japanese electronic component manufacturers.

Emerging Markets

China's industrial production increased by 5% year-on-year in May 2019 easing from a 5.4% gain in April and missing market consensus of a 5.5% advance. This was the weakest growth in factory output in more than seventeen years amid the escalating trade dispute between Beijing and Washington, with production growth slowing for both manufacturing and utilities. The US/China trade war has entered a dangerous new phase. If tariffs expand to cover all US/China trade, global GDP in 2021 will likely suffer a $600 billion decline.

Emerging markets will need to be on guard against the negotiating tactics or apparent whims of President Trump, as he plays to his support base in the run-up to the election late next year. Investors will need to navigate two opposing forces in particular: Trump's preference for rate cuts, which has sparked hope among emerging-market investors of a weaker Dollar, and at the same time his trade wars, which could have a serious impact on global growth.

Local - Eskom an achilles heel?

For the month of June 2019 the FTSE/JSE All Share Index delivered 4.78% on a total return basis, while the ALBI gained 2.27%. The SA Listed Property Index returned 2.2%, and cash 0.59%. The Rand strengthened by 3.13% against the Dollar and 1.01% against the Euro. For the twelve months to end June 2019, the ALSI returned 4.42% with the ALBI returning a comfortable 11.5%.

Listed property delivered 0.79% and cash 7.31%. South African GDP declined -3.2% q/q in the three months to March of 2019 following a 1.4% growth in the previous period and compared with market expectations of a 1.7% contraction.

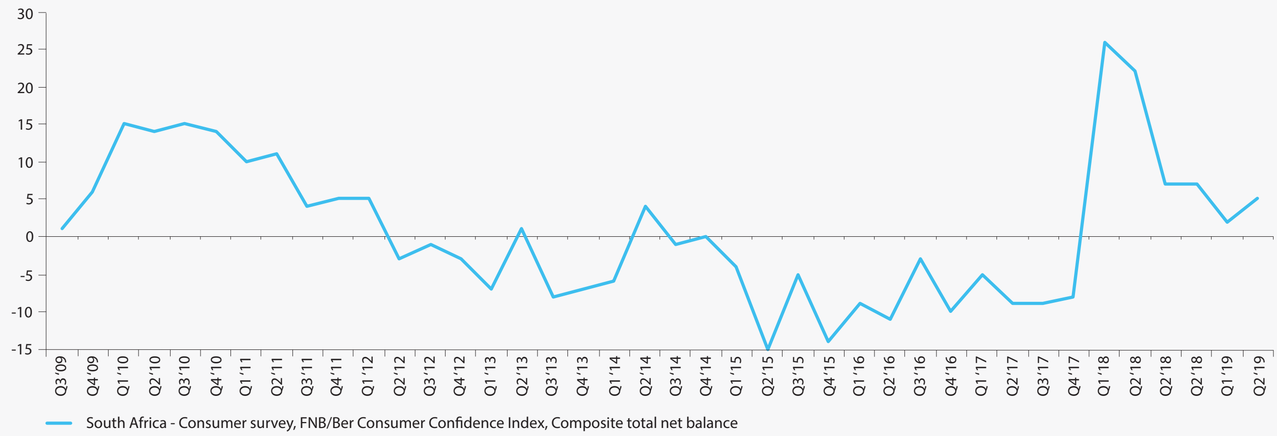
The manufacturing sector contributed most to the contraction, falling 8.8% quarter on quarter. SA's mining industry contracted 10.8% from the last three months of 2018, while final household consumption expenditure fell 0.8%. The numbers are likely to reinforce expectations that the Reserve Bank will move to cut interest rates possibly at its next meeting in July.

Despite the -3.2% GDP contraction, FDI inflows totaled R11.7 billion in Q1 against outflows of R8.2 billion in Q4 2018. The country also registered portfolio investment inflows of R29.2 billion for Q1 from outflows of R33.9 billion in the prior quarter.

Inflation remained benign coming in at 4.5% which is almost the mid-point in the SA Reserve Banks projected monetary policy target of between 3% and 6%. It has remained below the 6% monetary policy ceiling since April 2017.

South Africa's consumer confidence in Q2 improved marginally from the previous quarter, as the country struggles to boost growth. The First National Bank consumer confidence index, compiled by the Bureau for Economic Research, was flat at five points in Q2.

South African Consumer Confidence Survey



Source: FactSet/GTC

Eskom's debt woes appear to be much deeper than what was initially thought. The Finance minister has indicated that the R69 billion bailout granted by government over three years, will not be enough. Bloomberg is reporting that the National Treasury Director General told members of the G20 summit that South Africa has no choice but to increase funds for the parastatal.

Ratings agency Moody's said that it had lowered its forecast for South Africa's 2019 economic growth to 1.0% from 1.3%, after it said a first quarter contraction had impacted the government's revenue and policy options.

South Africa's manufacturing output rose 4.6% year-on-year in April after increasing by a revised 1.3% in March. Economists polled by Reuters had forecast a 1.35% year-on-year expansion in April. On a month-on-month basis factory production rose by 2.8% in April according to Statistics South Africa. Production of motor vehicles rose 18.6%, electrical machinery jumped 12.2% and the basic iron and steel category saw 9.4% growth.

Mining production decreased by -1.5% year-on-year in April 2019. The largest negative contributors were gold, iron ore and chrome. Seasonally adjusted mining production decreased by -0.9% in the three months ended April 2019 compared with the previous three months.

The South African Chamber of Commerce and Industry trade activity index for May trade activity improved marginally, with the index rising to 41 points compared to 37 reported in April.

Annual retail sales increased by 2.4% in April 2019, with growth in textiles, pharmaceuticals and household furniture, according to Stats SA. In March annual retail sales grew by 0.1%, and in February 1.4%. The 2.4% increase for April was above the expectations of analysts.

Global markets continue to be hamstrung by the continuing uncertainties surrounding the protracted and unresolved trade tariff dispute between the United States and China. Domestically, political infighting and concerns around the viability of Eskom continue to haunt the market with the apparent lack of meaningful leadership, which is also a contributing factor to investor uncertainty.

Hopefully going forward many of these issues will begin to be resolved, bringing in their wake renewed global and domestic investor confidence.

GTC fund performances - June 2019

Portfolios	6Mth %	1Year %	3Year* %	5Year* %	7Year* %	10Year* %
GTC Fixed Income B	3.83	7.97	8.16	7.84	6.90	6.91
AF Money Market Index (SteFi)^	3.22	6.48	6.11	5.66	5.12	5.05
GTC Wealth Protector Fund of Fund B	6.40	5.76	6.05	5.93	6.01	7.26
CPI + 1% target	2.60	5.59	5.81	6.02	6.33	6.21
GTC Capital Plus Fund of Fund B	7.71	4.64	5.68	4.82	6.64	7.05
CPI + 3% target	3.57	7.59	7.81	8.03	8.33	8.21
GTC Balanced Wealth Fund of Fund B	9.51	3.22	5.80	4.80	6.52	8.44
CPI + 3% target	3.57	7.59	7.81	8.03	8.33	8.21
GTC Prosperity Wealth Fund of Fund B	9.44	2.51	5.77	4.74	6.99	9.34
CPI + 5% target	4.54	9.59	9.81	10.03	10.33	10.21
GTC Wealth Accumulator Fund of Fund B	9.64	1.35	4.85	3.04	6.60	9.08
AF Money Market Index (Stefi)^	3.22	6.48	6.11	5.66	5.12	5.05
GTC Equity Fund Class A	14.07	3.22	4.91	n/a	n/a	n/a
FTSE/JSE ALSI Top 40^	12.62	3.01	5.84	n/a	n/a	n/a
FTSE/JSE All Share Index (ALSI)	11.38	2.86	5.31	4.28	9.79	11.80
FTSE/JSE Shareholder Weighted Index (SWIX)^	8.24	-0.31	2.71	3.83	9.33	11.81
FTSE/JSE ALSI Top 40^	12.62	3.01	5.84	4.07	10.03	11.66
BEASSA All Bond Index (ALBI)^	6.85	9.85	8.24	6.98	6.21	7.41
Cash (SteFi)^	3.22	6.48	6.11	5.66	5.12	5.05
MSCI World Index (R)^	13.83	7.77	7.53	9.79	15.85	13.68
GTC Conservative Absolute Growth (R)	-4.17	-0.47	-2.10	3.38	8.94	7.88
GTC CAG's Composite benchmark (R)^	5.92	7.46	1.81	7.21	10.52	9.10
$/R exchange rate	-1.98	2.87	-1.54	5.87	7.92	5.99
GTC Global Conservative Absolute Growth ($)	7.57	2.33	2.76	0.14	2.61	3.17
GTC Global CAG's Composite benchmark ($)^	8.07	4.46	3.41	1.26	2.40	2.93

*Annualised

^Benchmark returns include 1.5% fees.

GTC fund performance are net of 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 the equity markets rerated.

The **GTC Capital Plus FoF** lagged its inflation adjusted target as the equity markets detracted. Equity markets remain the key driver of performance.

The **GTC Balanced Wealth FoF** lagged its inflation adjusted target as the equity markets trended sideways over the medium term. Equity markets remain the key driver of performance.

The **GTC Prosperity Wealth FoF** lagged its inflation adjusted target as the equity markets trended sideways over the medium term.

The **GTC Wealth Accumulator FoF** lagged its benchmark over the medium term but ahead of the longer term in what has been a very narrow market.

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