GTC

Formerly Grant Thornton Capital

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Market Update

‘Risk off’ environment hammers markets

January was an eventful month, influenced largely by the United States Federal Reserve’s (Fed) decision to continue tapering its quantitative easing programme announced in December. Fed chairperson, Janet Yellen, announced a further reduction of $10 billion per month lowering the Fed’s purchases of securities to $65billion per month effective from February.

The Fed’s decision demonstrated their commitment to methodically reducing their asset purchase programme despite disappointing US employment numbers (74,000 new jobs in December) as well as significant turmoil within emerging markets. Investment Markets, which typically react by pricing in future expectations, subsequently sold down risk assets on the realisation that there would be less liquidity available in future.

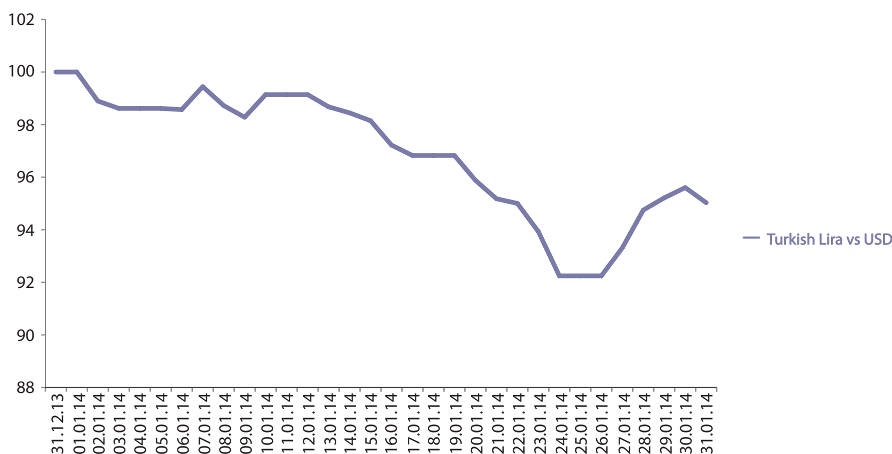
This move was reminiscent of previous risk off periods (e.g. 2011) as it included the seemingly obligatory ‘flight to safety’ (i.e. Developed economy Government Bonds/Treasuries). The MSCI World (Developed market equity) benchmark returned -3.45% in US Dollars while the Citigroup World Government Bond Index (WGBI) returned 1.31% in US Dollars

Emerging economies react

As explained previously, the continuation of the tapering programme led to significant outflows of assets from ‘risky’ emerging markets and those with high current account deficits (the ‘Fragile 5’) in particular. Foreigners were net sellers of both bonds and equities in January, transferring their investments back to developed world government securities.

Not content to sit and watch events unfold, emerging market central banks reacted by raising interest rates in an attempt to slow down or reverse the flow of funds out of their economies and investment markets.

Turkish Lira vs USD



Source: GTC/Morningstar

Turkey's central bank was the most aggressive raising interest rates by an effective 2.25%. While this move initially caused the Turkish Lira to strengthen, by market close that day most of the gains had been lost. This trend repeated across emerging markets illustrating their relatively insignificant size and inability to fight against the massive forces created by the US Fed's monetary policy.

Despite expectations to the contrary, South African reserve bank governor, Gill Marcus, followed suit by raising interest rates by 0.5%. The rate hike was seen as largely symbolic and slammed by some market commentators as having the potential to further inhibit South Africa's anaemic GDP growth (forecast at 2.8% for 2014 by the World Bank). The strikes and labour unrest experienced within the Platinum and Gold industries are further evidence of the tenuous state of the economy.

In her speech, Marcus focused solely on inflation concerns signifying a clear shift from a previously intimated dual focus of both growth and inflation. Crucially she was quoted as stating that this could not be seen as the start of a rate hike cycle. Bond markets have chosen to ignore the latter comment and are now pricing a further 1.5%-2% increase in interest rates over the next 3 years.

Market returns

The 'risk off' withdrawal of funds from our shores led to negative returns across local markets as well as a significant weakening of the Rand against developed world currencies. The JSE All Share lost 2.36% over the month dragged down by Industrials (-4.6%) and Financials (-6.9%). The Resource sector delivered a strong 5.9% in January off the back of a stratospheric 27.5% delivered by the Gold Mining sub sector as well as positive performances from the other subsectors

The All Bond Index delivered a negative return of -3.2% with longer dated bonds hardest hit (Beassa 7-12 yr -4.4%). The volatile SA Listed Property sector suffered a similar fate delivering -7.1%.

The Rand weakened by 6.6% to the US dollar, 4.2% to the Euro and 5.5% to the British Pound over the month. This allowed South Africans to achieve positive Rand based returns on their offshore investments with the MSCI World (Developed market equity) benchmark returning 2.7% in Rands while the Citigroup World Government Bond Index (WGBI) returned 8.0% in Rands.

Capital Gains Tax on UK property

January also saw an announcement of significance for those South Africans with property in the UK. These investors will in future be liable for Capital Gains Tax (CGT) in the UK and not in South Africa upon disposal of the asset. This change sees the UK profit from this tax instead of South Africa which will result in a loss of revenue for the SA economy.

Of greater relevance is the fact that the UK has a higher rate of CGT with the result that individuals will now have to pay 28%, compared with the 13.3% they were previously charged in South Africa.

GTC Fund Performances - January 2014

Investment portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	-0.21%	0.96%	3.21%	3.96%	4.82%	5.38%	6.18%
GTC Wealth Accumulator FOF B	-1.47%	5.66%	6.56%	9.94%	9.67%	11.84%	14.65%
GTC Capital Plus FOF B	-0.67%	3.93%	5.78%	7.40%	7.01%	7.39%	8.93%
FTSE/JSE All Share Index (ALSI)^	-0.93%	10.25%	13.17%	17.44%	14.62%	15.67%	18.63%
FTSE/JSE Shareholder Weighted Index (SWIX)^	-1.93%	9.61%	13.26%	18.28%	15.81%	16.42%	19.17%
BEASA All Bond Index (ALBI 1-3 year)^	-1.00%	0.57%	1.21%	3.64%	5.39%	5.48%	5.50%
Cash (SteFi)^	0.93%	1.84%	3.63%	3.78%	3.90%	4.23%	4.81%
GTC Conservative Absolute Growth (R)	12.53%	19.28%	32.60%	29.06%	19.80%	14.64%	7.95%
GTC CAG's Composite Benchmark (R)^	17.63%	23.01%	33.69%	26.64%	19.87%	14.23%	6.82%
R/$ Exchange rate	15.06%	16.42%	27.59%	21.17%	16.64%	10.92%	2.52%
GTC Global Conservative Absolute Growth ($)	-2.18%	1.17%	2.69%	6.28%	3.60%	4.54%	6.19%
GTC Global CAG's Composite benchmark ($)^	-0.89%	2.24%	2.62%	3.07%	1.94%	3.02%	4.91%

* Annualised ^Benchmark returns include 1,5% fees Not all fund class returns are shown. Class B refers to indirect investments

The **GTC Fixed Income Fund** has been impacted by the increase in rates following the foreign selloff in local markets. The recent interest rate hike has also contributed to an increase in yields which has eroded previous market gains in the fund. The market is expecting further rate hikes in coming months which have been priced into the short term yield curve. This move is likely to increase the overall return for investors.

The **GTC Wealth Accumulator FoF** has achieved a market related return in recent months. The increase in volatility stemmed from foreigners exiting emerging markets. These investors have been negatively impacted by the currency weakness and lower returns, which has triggered the mass selloff. In January, the main detractors to performance have been the industrial and financial sectors while the overall resource sector moved higher. South Africa was not alone in the selloff as global emerging markets have experienced large outflows from both the equity and fixed income markets.

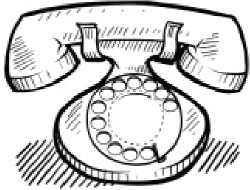
The **GTC Capital Plus FoF** has delivered inflation relative returns over the past year, despite the recent negative returns from equities and fixed income markets. Although the managers have equity protection, most asset classes have experienced extreme volatility which has resulted in the lower returns.

The managers have been cautious in capital allocation and have chosen to invest in short to medium term fixed income instruments, where yields have increased significantly relative to just a few months ago.

The **GTC Conservative Absolute Growth Fund** (USD and Rand classes) has produced a 12 month return of over 32% (rand class). The significant depreciation in the rand was largely attributable to the foreigner selloff between November 2013 and January 2014. Global developed markets improved on the back of capital redistribution between emerging and developed markets as foreign investors realised their losses in emerging markets to invest in the positive trend in developed markets.

Further information

Contact us



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