GTC

Formerly Grant Thornton Capital

July 2014

Market Update

Global

July proved to be a mixed month for global equity markets with the MSCI World posting a -1.7% (USD) return dragged lower by Japan (-2.3%), Europe(-1.9%) and the UK(-1.9%), whilst the US bucked the trend posting 0.3%. Emerging Markets fared better with the MSCI EM Index returning 1.4% (USD) led higher by China and Indonesia. Global bond markets dropped 0.4% (USD), as measured by the Citigroup World Government Bond Index.

Economic growth in developed markets continued in July with substantial variance in different regions of the world leading to divergent monetary policies being pursued. In the United States the Federal Open Market Committee (FOMC) continued with a reduction in its bond repurchasing programme by reducing the buy backs by $10 billion.

Minutes from the latest FOMC meeting suggest a possible end to the bond repurchases in the coming few months. The power at the Federal Reserve Bank remains firmly in the hands of the doves led by Chairperson Janet Yellen which suggests a continuation of a low interest rate environment designed to encourage borrowing and spending which in turn will help fuel economic growth. Yellen's testimony before Congress emphasised the need for an accommodative monetary policy stance to be maintained until such time as the economy displayed more positive signs of a sustained recovery.

U.S. manufacturing continued to show positive growth in July although employment and new business slowed. The unemployment rate rose to 6.2% in spite of the addition of new jobs and a decline in initial jobless claims falling to its lowest level in eight years.

The U.S. economy generated 209,000 new jobs in July, down from June but marking the sixth straight month that employment has expanded by more than 200,000 jobs, something last seen in 1997. U.S. Gross Domestic Product (GDP) came in at an unexpectedly high 4% for Q2 which brought cheer to global stock markets.

Purchasing managers indices

Source: GTC/I-Net

This was particularly pleasing following the disappointing contraction of 2.1% for Q1. Consumer confidence continued to decline in July following on the decline in house prices for the first time since 2011.

In the U.K. the Bank of England kept interest rates and asset repurchases unchanged. Minutes from the latest Monetary Policy Committee meeting revealed that discussion had been centred on the time horizon in which interest rates were likely to be raised. Growth in the U.K. manufacturing sector was more tempered in July but remained at a satisfactory level.

Concerns over a possible housing bubble were allayed somewhat as house prices continued to rise at a more moderate pace. U.K. unemployment declined to 6.5% in June whilst the economy grew 0.8% in Q2 much in line with expectations.

The European Central Bank's (ECB) latest bulletin confirmed its intention to maintain current monetary policy following on from the recent stimulus package. It intends keeping interest rates at extremely low levels and will introduce a programme of quantative easing should the Eurozone economic recovery be seen to be faltering.

The Eurozone's Purchasing Managers Index (PMI) showed strong growth in July. Positive growth appears assured as orders for manufactured goods and services are at record levels. Despite the best efforts from the ECB and its President Draghi, deflationary pressures continued to drive inflation downwards. Consumer confidence remains weak whilst the unemployment rate remains uncomfortably high at 11.5%.

The Chinese economy continues to forge ahead with the HSBC PMI index rising to 52.0 in July from a previous 50.7 in June. Any reading above 50 signals expansion in the manufacturing sector. The HSBC report signalled strong industrial output way above economists' forecasts. Employment and price indicators also improved.

This improvement in economic activity suggests that the mini-stimulus measures introduced recently are having the desired effect. Policy makers are likely to maintain their accommodative stance for some time. Beijing reported earlier this month that GDP had expanded at 7.5% in Q2 in line with China's official growth target for 2014.

The U.S. and Europe broadened sanctions against Russia following the Malaysian airline tragedy whilst geo-political events in Ukraine and Iraq continued to influence world stock markets. Argentina technically defaulted on interest payments on its sovereign debt due to a speculative play by hedge funds and subsequent intervention by US courts.

The country has for some time been plagued by out of control inflation. Further evidence of weakness in certain European countries was the bailout of the second biggest Portuguese bank by the government to the tune of 4.9 billion euros. Both these defaults had negative implications for emerging market currencies.

The S&P 500 reached a new record high of 1987.98 points on the back of higher than expected corporate earnings. The index did however decline 1.5% for the month. The Dow Jones declined 1.6% for the month whilst the tech heavy NASDAQ declined 0.9%.

Domestic

Locally, the JSE was up, returning 0.9% (ZAR) in July with Resources (5.1%) and Financials (1.2%) positive whilst Industrials fell 1%. Nominal fixed interest markets also reflected gains with the All Bond Index returning 1.0% while their inflation linked counterparts fell 0.1%.

Following hard on the heels of a five month economically crippling strike in the platinum industry the 1st of July saw NUMSA (the metal and electrical union) embark on an indefinite strike of its 220,000 members bringing considerable pressure to bear on an already ailing economy.

Motor manufacturers in particular were forced to close production lines as a result of component shortages which obviously impacted severely on the industries export numbers. The NUMSA strike finally ended towards the end of the month with the employer federation SEIFSA reluctantly offering pay increases ranging from 7% to 10% over three years. This reluctance to accede to the wage demands will undoubtedly lead to substantial job losses.

Of major concern is that disruption to motor vehicle production could result in certain manufacturers moving their assembly base offshore. South Africa's new vehicle sales fell 1.5% year-on-year to 57,670 units in July according to the department of trade and industry. Export sales declined 16.2% year-on-year to 22,773 units.

According to domestic trade data, the trade deficit shrunk to R190 million in June from R7.4 billion in May beating forecasts of a R6.3 billion shortfall by economists polled by Reuters. This was largely due to a sharp reduction in imports as well as a substantial increase in the export value of vehicles and transport equipment following on the earlier strike this year in the motor industry.

Agricultural exports were also sharply up. MBSA (Master Builders Association) reported that many construction projects had been delayed due to the shortage of steel and metal components.

Whilst strike action remains endemic in the South African context alarming jobless numbers were announced in July showing an increase to 25.5% from 25.2% in Q1 translating into 5.154 million up from 5.067 million in Q1.Far more alarming is the expanded definition of employment which includes those who have stopped looking for work which rose to 35.6% up from 35.1% in Q1.

In order to assist in countering this serious state of affairs the government intends increasing support for the automotive and clothing and textile industries by investing R7.9 billion in order to assist in kick starting job creation.

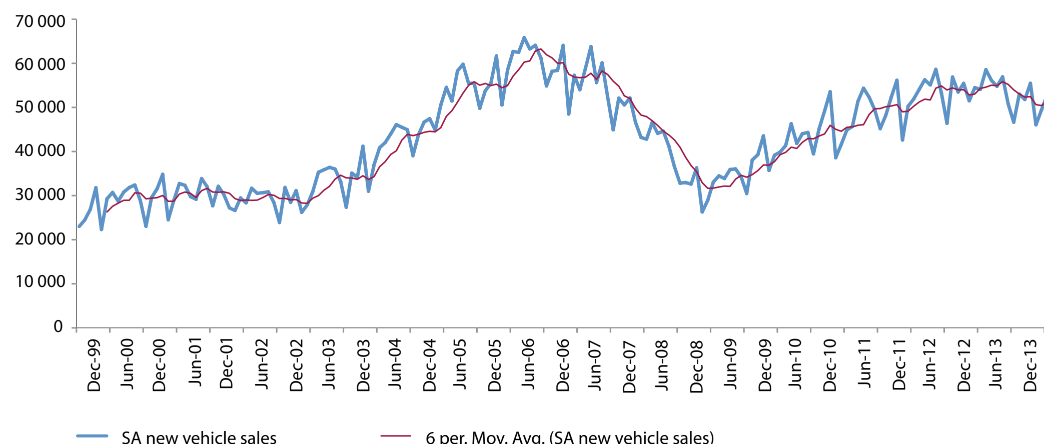
At its July 17th meeting the MPC of the Reserve Bank decided to raise the repo rate by 25 basis points to 5.75 percent as inflation had breached the upper end of the target range.CPI came in at 6.6% in June against a consensus of 6.7% leaving the MPC little option but to raise rates.

The increase in the inflation rate was largely driven by exchange rate depreciation and sharply rising food prices. Since the previous meeting of the MPC, the economic growth outlook had deteriorated further, due to protracted strike action in the mining and manufacturing sectors.

The economy contracted in Q1 of 2014 with the growth outlook remaining subdued amid low business confidence. Recent wage settlements in excess of inflation and productivity growth have added to the upside risk to the inflation outlook.

Despite disappointing economic data and labour unrest the local stock market continued its meteoric rise reaching an all-time high during the month of 52,242points before closing the month at 51,396points. The TOP 40 index gained 0.58% over the month with the best performer being industrial metals which gained 13.01%.This surge in industrial metal stocks came on the back of the encouraging growth figures from the Chinese economy.

SA new vehicle sales



Source: GTC/I-Net

GTC Fund Performances - July 2014

Investment portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	3.91%	6.34%	7.36%	5.94%	5.81%	6.02%	6.44%
GTC Wealth Accumulator FOF B	5.27%	12.63%	19.00%	17.23%	13.28%	12.82%	13.88%
GTC Capital Plus FOF B	3.73%	8.86%	13.14%	11.34%	9.69%	8.51%	8.67%
FTSE/JSE All Share Index (ALSI)^	4.99%	14.69%	26.44%	23.80%	20.01%	17.80%	17.79%
FTSE/JSE Shareholder Weighted Index (SWIX)^	6.15%	16.39%	27.56%	23.27%	21.12%	18.62%	18.67%
BEASA All Bond Index (ALBI 1-3 year)^	1.38%	3.57%	4.16%	3.43%	5.09%	5.39%	5.85%
Cash (SteFi)^	1.08%	2.04%	3.92%	3.79%	3.90%	4.05%	4.41%
GTC Conservative Absolute Growth (R)	4.31%	-0.23%	19.00%	24.07%	21.20%	17.13%	12.99%
GTC CAG's Composite Benchmark (R)^	1.68%	-4.09%	14.18%	19.42%	19.90%	13.98%	10.33%
R/$ Exchange rate	1.36%	-6.81%	8.50%	14.26%	17.21%	9.84%	6.33%
GTC Global Conservative Absolute Growth ($)	0.98%	5.12%	6.36%	7.94%	4.19%	6.02%	5.57%
GTC Global CAG's Composite benchmark ($)^	0.31%	2.92%	5.22%	4.48%	2.26%	3.75%	3.74%

* 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 delivered outperformance against the Cash (SteFI) and Bond (ALBI 1-3 year) benchmarks over all periods. July saw the SARB raise rates by 25bps as inflation continues to breach the upper threshold of the inflation target. The markets has priced in the probability of another 100bps hike over the next 12 months.

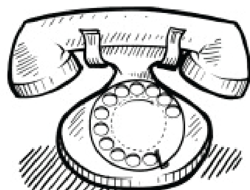
The **GTC Wealth Accumulator FoF** continues to participate in the strong positive returns delivered by the equity market while maintaining a defensive position should the markets sell off.

The **GTC Capital Plus FoF** has achieved healthy outperformance of its inflation relative target (CPI+3%) over the past year. The significant absolute return exposure ensures that the Fund captures upside equity return while focusing on avoiding losses over 12 month periods.

The **GTC Conservative Absolute Growth Fund** (USD and Rand classes) continues to deliver outperformance against its benchmark over all of the analysis periods displayed. The fund has captured a significant portion of the upside afforded by equity markets while still maintaining its capital protection objective.

Further information

Contact us



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