GTC

Formerly Grant Thornton Capital

June 2014

Market Update

Global

Global equity markets continued their upward trend with the MSCI World posting 1.7 %(USD) mainly on the back of strong US(2.1% USD) and Japanese(5.2% USD) gains with Europe flat(-0.1% USD). EM markets also benefitted from the risk on environment, posting 2.0% (USD) while global fixed income markets returned 0.4%(USD) in June.

In the U.S.A. the Bureau of Economic Analysis announced a final negative 2.9% decline in GDP for the first quarter of 2014 which came as a shock following the positive 2.6% growth in GDP the previous quarter.

This was the worst reading since early 2009 and was largely attributable to inclement weather which virtually shut down large areas of the East coast. Other contributors were a reduction in exports, business inventories and higher heating costs. As a result the Federal Reserve cut its economic growth forecast for 2014 to a range of 2.1%-2.3%.

The U.S. economy finally regained most of the jobs lost since the onset of the recession late in 2007. The unemployment rate declined to 6.1% the lowest since September 2008. U.S. manufacturing showed signs of further improvement as well as did retail sales. By the end of June inflation had risen at the fastest monthly rate in more than a year (0.4%).

The Federal Reserve monetary policy committee continued to decrease its economic support by reducing bond repurchases by an additional $10 billion, indicating potentially ending Quantitative Easing(QE) by October 2014.

Minutes indicated that even in the event of QE termination, the Fed would maintain the assets on balance sheet to maintain lower interest rates and is expected to release a plan later this year “well before the first steps” were taken to start reducing the bond holdings. Stocks extended their gains in the absence of any strong signal from the Fed that its first hike in short-term rates could come sooner than investors expect.

US Govt 10 year bond vs US unemployment %

Source: GTC/I-Net

The decision by the European Central Bank (ECB) to impose a negative interest rate on deposits coupled with hints from the ECB that it may institute an asset buying programme, not dissimilar to the Fed's quantative easing, resulted in fresh capital inflows into a host of markets particularly those offering higher real returns.

The ongoing recovery in Japan together with the Bank of Japan's assurance that it will continue buying government bonds also points to an additional source of liquidity. It is also suggested that the Japanese Government Pension Fund may have its rules altered to allow increased offshore investment. This surfeit of global liquidity is the main catalyst driving world equity markets.

Several leading economic indicators suggest that the global economy, albeit fairly subdued at the moment, is slowly gathering momentum. A rise in global inflation in April signalled by the Organisation for Economic Co-operation and Development is suggestive of such improvement.

Whilst this has been largely confined to developed economies ,elsewhere the news has certainly been less negative than it was in the early part of 2014.Additionally the world's second biggest economy, China, saw a surge in its trade surplus for May suggesting that the forecast growth in GDP of 7.5% will be achieved. A controlled decline in the value of the Yuan has also helped boost exports.

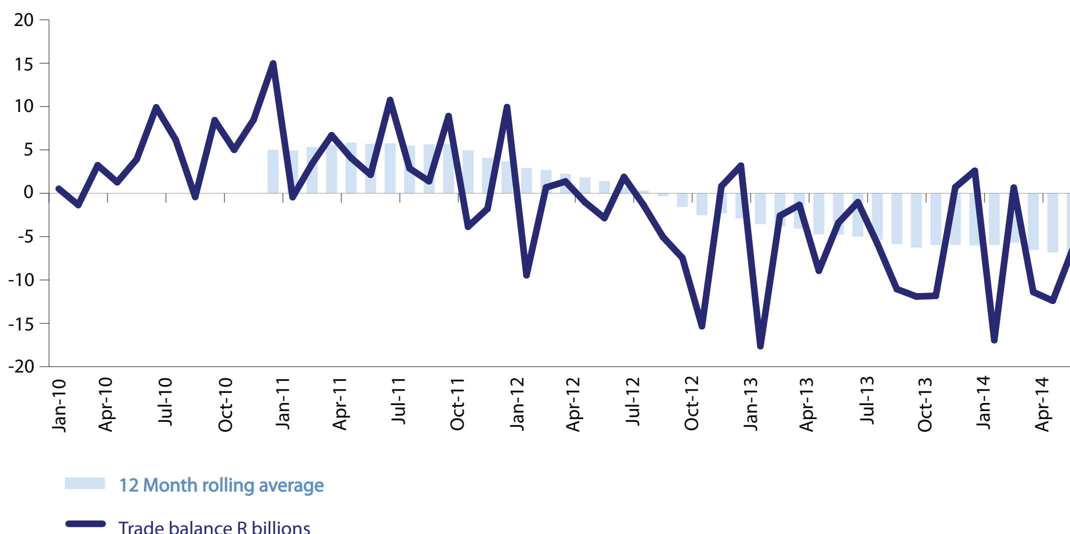
The stabilisation of the Chinese economy together with a planned increase in infrastructure development will certainly help underpin demand for raw materials.

Newly elected Ukrainian president Petro Poroshanko has taken some positive steps to help resolve the crisis in the eastern part of his country. His offer of greater local autonomy along with attempts to isolate the more vitriolic elements of the separatist movement come on the heels of a statement from president Putin of Russia that he will respect the election of Poroshanko. Ukraine has also started to honour its debts for Russian gas imports assisted by Western aid. The situation now appears a little more settled easing the tensions in the region.

The spillover from the Syrian conflict into Iraq and the subsequent local uprising saw the Islamic State of Iraq and the Levant (ISIL) capturing large swathes of northern Iraqi territory including the cities of Tikrit, Samarra and the second biggest city Mosul. To add to the confusion and mayhem in the area the Kurdish population seized on the opportunity to defend their own territory calling for an independent Kurdish State.

This gave rise to grave concerns around Iraqi oil production resulting in the oil price spiking above $114 per barrel. It is feared that any prolonged disruption to oil production could impinge negatively on a fragile global economic recovery.

SA Trade account



Source: investec/SARB

Locally, June saw an increasing disconnect between economic reality and a rampant stock market. The trade deficit widened considerably to a deficit of R13.03 billion in May against a consensus of R11.0 billion. This resulted in increased downward pressure on the Rand but the JSE continued to forge ahead spurred on by positive economic news particularly from China.

The AMCU strike in the platinum industry continued to play havoc with the local economy before finally being brought to an end on the 24th June to nationwide relief. However the sting in the tail was a downgrade in our sovereign debt rating by two internationally recognised rating agencies.

Fitch retained SA's overall rating at BBB but altered its outlook for the economy from stable to negative. Standard & Poor's downgraded their rating to BBB-minus with a negative outlook. Both agencies revised their 2014 GDP forecast down from 2.7% with Fitch (1.7%) more bearish than Standard & Poors (1.9%).

Unexpectedly the current account deficit in May reduced to 4.5% of GDP against 5.1% in April against a consensus of 6.1%.This improvement was largely due to foreign dividend inflows as well as an increase in carry trades attracted by the weaker Rand.

Unfortunately more bearish news awaited South Africa in the form of an increase in the Consumer Price Index which rose to 6.6% in May from a previous 6.1%, heralding the likelihood of a interest rate hike at the July meeting of the Reserve Bank' s Monetary Policy Committee. To further exacerbate the difficult economic situation the National Union of Metal Worker's (NUMSA) with a membership of 220,000 indicated its intention to strike beginning the 1st July.

In spite of poor economic news as the Rand weakens it results in increased flows to the JSE which has been scaling new heights almost on a daily basis. Whilst the world is awash with liquidity fund managers will seek out enhanced yield wherever it can be found, often with little regard for fundamental value. Both the global and in particular our local economy still face significant headwinds and many equity valuations are stretched to the limit. In many instances share prices are now in what can best be described as Blue Sky territory.

Should a correction in world markets occur, GTC has factored into its product offerings a certain degree of downside protection so as to help limit potential capital loss. This in essence is an insurance against unseen events and is there to provide our clients with a certain degree of comfort.

The BRICS country ratings compared

		S&P		Moody's		Fitch	Average	TE Score
China	**AA-**	Stable	Aa3	Stable	A+	Stable	78.82	Stable
South Africa	**BBB-**	Stable	Baa1	Negative	BBB	Negative	57.44	Negative
Russia	**BBB-**	Negative	Baa1	Stable	BBB	Negative	54.81	Stable
Brazil	**BBB-**	Stable	Baa2	Stable	BBB	Stable	50.73	Stable
India	**BBB-**	Negative	Baa3	Stable	BBB	Stable	47.12	Negative

Source: Economists.co.za

GTC Fund Performances - June 2014

Investment portfolios	3Mth	6Mth	12Mth	2Year*	3Year*	4Year*	5Year*
GTC Fixed Income B	1.47%	2.44%	4.46%	4.56%	4.99%	5.41%	5.97%
GTC Wealth Accumulator FOF B	4.64%	7.89%	22.27%	16.04%	12.33%	14.21%	15.47%
GTC Capital Plus FOF B	3.77%	6.02%	13.17%	11.33%	9.14%	8.87%	9.33%
FTSE/JSE All Share Index (ALSI)^	6.78%	10.95%	30.81%	24.89%	18.85%	19.83%	19.86%
FTSE/JSE Shareholder Weighted Index (SWIX)^	6.31%	10.98%	29.95%	24.38%	19.98%	20.62%	20.40%
BEASA All Bond Index (ALBI 1-3 year)^	1.40%	1.74%	4.08%	3.51%	5.27%	5.51%	5.77%
Cash (SteFi)^	1.04%	1.99%	3.85%	3.78%	3.89%	4.07%	4.45%
GTC Conservative Absolute Growth (R)	2.58%	3.69%	12.33%	24.17%	19.93%	15.57%	12.58%
GTC CAG's Composite Benchmark (R)^	2.16%	3.98%	16.54%	19.25%	18.83%	13.93%	11.01%
R/$ Exchange rate	0.32%	1.28%	7.44%	13.22%	15.79%	8.49%	6.11%
GTC Global Conservative Absolute Growth ($)	1.88%	3.22%	10.63%	9.03%	4.24%	7.28%	6.28%
GTC Global CAG's Composite benchmark ($)^	1.83%	2.67%	8.46%	5.30%	2.60%	5.00%	4.60%

* 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 most periods. Interest bearing returns remain supressed below inflation as a result of the loose monetary policy adopted by central banks both locally and globally.

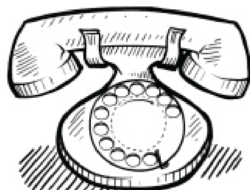
The **GTC Wealth Accumulator FoF** continues to participate in the strong positive returns delivered by the equity market while maintaining a defensive position should the markets sell off. The cost of protection within the Prescient Protected Equity portion will reduce over the coming months benefitting the Fund further. The local equity market has been the top performing asset class over 2014.

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 almost all of the analysis periods displayed. The Rand weakened marginally over the past 3 months due to concerns surrounding strike action and the potential ramifications on South Africa's current account. This resulted in a slight positive impact for local investors with exposure to offshore markets.

Further information

Contact us



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