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Market Update

August 2017

At a glance

- In spite of mostly positive economic data, the severely damaging Hurricane Harvey, coupled with the escalating North Korea/US tensions, resulted in the MSCI World Index returning -0.07% in Dollar terms. The MSCI Emerging Market Index supported by improving commodity prices easily outperformed, returning 2.01%.

- An upward revision of US GDP from 2.6% to 3.0% helped market sentiment but energy stocks dragged the market down as Hurricane Harvey brought oil refining capacity to a screeching halt.

- Positive economic data from the Eurozone resulted in the Euro strengthening considerably, which in turn led to the MSCI EMU Index delivering a positive 0.29%.

- In the UK, improving commodity prices saw a resurgence in interest in mining counters, while geo-political factors resulted in a rally in precious metal prices. The combination of these factors saw the FTSE All-Share Index return 1.4% for the month.

- The Japanese equity market remained flat, in spite of concerns over developments in North Korea and remained steady, driven largely by positive corporate earnings.

- Statements from both the Federal Reserve's Janet Yellen as well as the ECB's Mario Draghi which remained dovish, resulted in government bond yields declining.

- Positive developments resulted in the JSE/All-Share Index gaining an impressive 2.65% in total return terms - the Index climbing to an all-time high above 56,000 points.

Global: An uneasy North Korean stand-off

In spite of the ravages of Hurricane Harvey and deteriorating US/North Korea relations, US equity markets continued to trade higher, boosted by positive economic data which included an upward revision of Q2 GDP from 2.6% to 3.0%.

The Dow Jones returned 0.26% and surpassed the 22,000 points level for the first time. The S&P 500 returned a paltry 0.05% while the tech heavy NASDAQ delivered 1.27%.

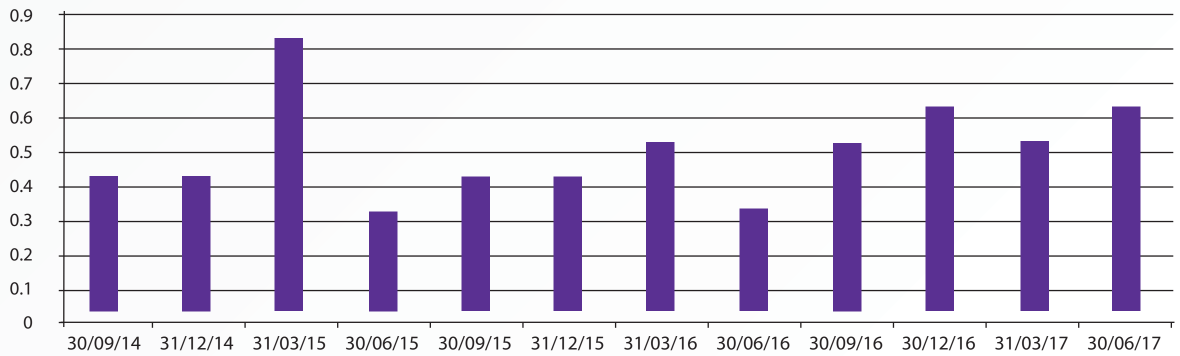
US producer prices unexpectedly fell in July, recording their biggest drop in nearly a year and pointing to a further moderation in inflation that could delay a Federal Reserve interest rate hike. Other data showed an increase in the number of Americans filing for unemployment benefits. The trend in weekly jobless claims however remains consistent with a tightening labour market.

US retail sales recorded their biggest increase in seven months in July as consumers boosted purchases of motor vehicles as well as discretionary spending. The data suggested the economy continued to gain momentum early in the third quarter.

The Commerce Department said retail sales jumped 0.6% last month, the largest gain since December 2016, and followed June's upwardly revised 0.3% rise. Consumer confidence continued to improve with the Conference Board Consumer Confidence Index ticking up to the highs reached earlier in the year.

Eurozone equity markets were tempered by Euro currency strength in spite of economic data remaining robust. GDP growth continued on the upside, improving from 0.5% in Q1 to 0.6% in Q2. Positive data in terms of the flash PMI saw the indicator up to 55.8 from July's 55.7. Inflation remained tepid at 1.5%.

Euro zone QoQ GDP % growth



Source: GTC/FactSet

The European Central Bank's policy meeting is scheduled for September at which it is widely expected that details will be provided on its tapering of the quantitative easing programme.

In the UK increasing geo-political risks, particularly on the Korean peninsula, resulted in a flight to safe haven assets particularly in the form of gold and this, coupled with a recovery in industrial metal prices, was the catalyst which drove the FTSE All-Share to a return of 1.4%.

The improvement in industrial metal prices was as a result of improved sentiment in terms of the Chinese economy which saw iron ore prices recording double-digit gains. The deteriorating sentiment towards the UK economy was mirrored in Sterling weakness as well as a decline in retail sales.

The Japanese market remained virtually flat, ending down a minuscule -0.1% but was dominated by events developing in North Korea in spite of economic data suggesting ongoing improvement in economic growth. Of particular significance was the release of GDP data for June which indicated far stronger growth than consensus suggested. The majority of major corporates are revising their earnings upwards and what is most encouraging is that it appears that it is domestic demand rather than external demand which is driving these expectations.

China reported that its official manufacturing Purchasing Managers' Index for the month of August came in at 51.7 which was above expectations. Analysts polled by Reuters expected China to post official PMI of 51.3 for August, down from 51.4 in July.

China's manufacturing sector has been posting solid growth thanks to domestic infrastructure spending and a recovery in exports. This has mitigated some concerns about slowing growth and high debt levels that could impact negatively on the world's second-largest economy.

For China the opportunities for sharing in Southeast Asian infrastructure development are significant. The 10 ASEAN members boast some of the world's fastest expanding economies like the Philippines and Vietnam, with growth rates of more than 6%. With a combined population of over 620 million and an economy of $2.6 trillion, the investment potential is huge.

Domestic: Come December

The market breathed a sigh of relief when Moody's rating agency elected not to release their scheduled ratings review on the basis that nothing material had changed in the general economic outlook to warrant one. The failed no confidence vote against President Zuma resulted in considerable Rand volatility.

Somewhat surprisingly the market appeared to take some cheer on the passing of these two events and the JSE/ALSI returned a pleasing 2.65% in total return terms and exceeded the 56,000 points level to reach an all-time high. In total return terms the Top40 index returned 2.57%. Foreigners remained net sellers of SA equity to the tune of R65.2 million.

The best performing of the major indices was Resources which returned a commendable 4.52%. Financials gained 2.05% while Industrials returned 1.96%. The gold and platinum mining sectors were star performers with Platinum and Precious Metals returning 9.66% and Gold Mining 8.26% respectively.

Domestic bond returns continued to appeal to foreigners with the ALBI gaining 1.03% with particular interest being shown in the middle- and long end of the yield curve. Despite concerns over the widening of the budget deficit numbers, foreigners purchased SA bonds to the value of R2.156 billion.

New vehicle sales improved 4.1% in July compared to July 2016. As a result, aggregate sales for the first seven months of 2017 have almost caught up with the corresponding 2016 period, reflecting a deficit of just 0.3%. Vehicle exports were much improved in July at 22.2% - better than a year earlier. However, for the first seven months of the year they still lag 2016 by 3.1%.

The seasonally adjusted ABSA Purchasing Managers' Index (PMI) declined by a further 3.8 points to 42.9 in July, with all five of the major sub-indices having declined.

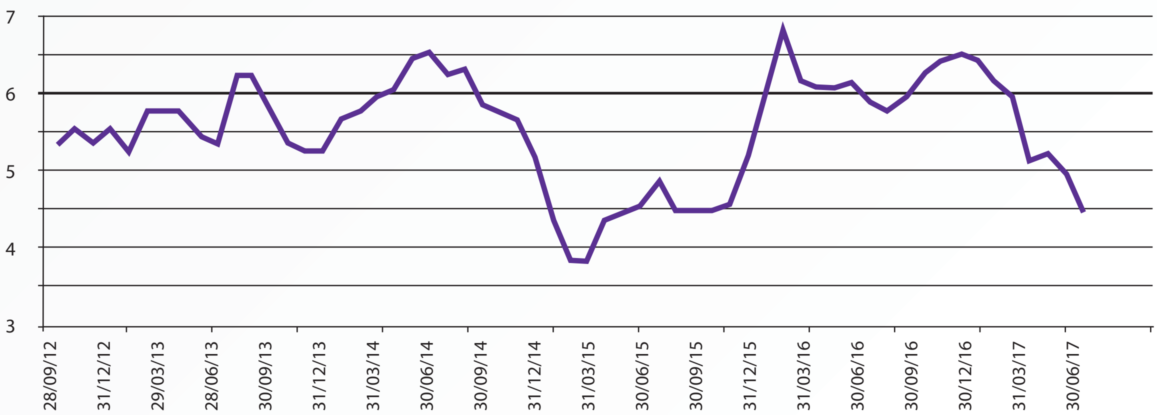
The seasonally adjusted business activity index was under the most pressure, declining by 6.1 index points to 39.3. This significant decline was on the back of an even steeper fall in June.

The BER warned that the manufacturing sector continues to face a number of headwinds, including the possibility of an extended strike in the metals and engineering industry.

Mining production decreased by 0.8% year-on-year in June 2017. PGMs was the largest negative contributor, while Diamonds was a significant positive contributor. Seasonally adjusted mining production decreased by 2.6% in June 2017 compared with May 2017. This followed month-on-month changes of 0.1% in May 2017 and -2.0% in April 2017.

Manufacturing production decreased by -0.3% in June 2017 compared with June 2016. Seasonally adjusted manufacturing production was flat in June 2017, compared with May 2017. This followed month-on-month changes of -0.3% in May 2017 and 2.2% in April 2017.

South Africa CPI Rate



Source: GTC/FactSet

The headline CPI annual inflation rate in July 2017 was 4.6%. This rate was 0.5% lower than the corresponding annual rate of 5.1% in June 2017. On average, prices increased by 0.3% between June 2017 and July 2017. Inflation has dipped below the 5% mark for the first time since November 2015, supporting the case for another interest rate cut at the Reserve Bank's next monetary policy committee meeting.

While the JSE/ALSI tests an all-time high, political maneuvering expected over the next few months is likely to cause investors concern.

In December the ruling African National Congress is due to pick a successor to President Jacob Zuma as party leader, in a contest that so far has no clear front-runner.

The 13.6% gain in the JSE/ALSI this year is less than half the 28.3% advance by its emerging-market peers, which partly reflects unease among investors over management of the economy under Zuma, and concern that the ANC won't select a candidate focused on reinvigorating the economy or decisively tackling corruption. This uncertainty is likely to result in increased volatility but investors are advised to remain calm.

GTC fund performances - August 2017

Client portfolios	10Year* %	7Year* %	5Year* %	3Year* %	1Year %
GTC EB Conservative - Provident	6.54	6.79	6.90	5.56	5.59
GTC EB Conservative - Pension	6.72	7.07	7.06	5.56	5.35
GTC Conservative Inflation Target - CPI+1%	7.03	6.47	6.62	6.14	5.43
GTC EB Moderate - Provident	8.12	8.90	8.67	5.00	5.77
GTC EB Moderate - Pension	8.09	8.83	8.64	4.98	5.72
GTC Moderate - Inflation Target - CPI+3%	9.04	8.47	8.62	8.15	7.43
GTC EB High Equity - Provident	8.85	10.18	10.10	5.93	6.61
GTC EB High Equity - Pension	8.93	10.06	9.99	5.90	6.56
GTC High Equity Inflation Target - CPI+5%	11.04	10.48	10.63	10.15	9.43
GTC EB Market Plus - Provident	9.84	11.70	11.21	5.41	6.95
GTC EB Market Plus - Pension	9.84	11.71	11.22	6.08	6.99
GTC EB Market Plus - Benchmark	8.42	12.22	11.44	6.75	5.47
FTSE/JSE All Share Index (ALSI)^	8.55	12.63	11.43	4.98	8.51
FSTE/JSE Shareholder Weighted Index (SWIX)^	9.49	13.41	11.83	5.53	6.32
BEASA All Bond Index (ALBI)^	6.96	6.10	4.73	5.07	8.57
Cash (SteFi)^	5.64	4.63	4.78	5.43	6.06
MSCI World Index (R)^	6.95	16.40	17.00	9.35	0.32

*Annualised

GTC Performances are shown net of all fees

^Benchmark returns include 1.5% fees

The **GTC Conservative Funds** performed in line with their inflation-adjusted targets over longer term periods. Equity markets remain the key driver of performance.

The **GTC Moderate Funds** performed in line with their inflation-adjusted targets over longer term periods. Equity markets remain the key driver of performance.

The **GTC High Equity Funds** (previously Aggressive) lagged behind their inflation targets as real rate detraction from equity markets impacts over the short term.

The **GTC Market Plus Funds** were ahead of their targets over the short term and in line over the long term. Within our manager blend, exposure to attractive and depressed materials exposure has detracted in the short term performance. 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) 21 412-1062
E ceggers@gtc.co.za

Strategic Partners
Roger Schärges
T +27 (0) 10 597-6858
E rscharges@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 - GTC Derivatives
Mike Bolus
T +27 (0) 21 412 1071
E mbolus@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 adiamond@gtc.co.za

Compliance Officer
Dale Nussey
T +27 (0) 10 597-6828
E dnussey@gtc.co.za

formerly Grant Thornton Capital

a GTC@Grant Thornton, 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

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