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Market Update - Employee Benefits

October 2017

At a glance

- The MSCI Emerging Market Index returned 3.5% in total return terms for the month, outperforming the MSCI World Index which returned 1.9%. On an annual basis the MSCI Emerging Market Index has returned 26.5% versus the return on the MSCI World Index of 22.8% both in Dollar terms.
- Global markets continued to deliver strong performance over the month with several major indices achieving all-time highs. Historically low volatility was a feature.
- Macroeconomic data from the US remained supportive of the market in spite of the turmoil caused by hurricanes Irma and Harvey. The tech-heavy NASDAQ enjoyed continued support.
- Encouraged by ongoing quantitative easing, albeit at a reduced rate, Eurozone equities were reflective of continuing economic growth in the region.
- The UK market showed improvement driven largely by a rebound in both the oil price and the resource sector.
- Prime Minister Abe's overwhelming election win suggested a continued period of quantitative easing and the Japanese market reacted positively to the event.
- In line with the overall global economic recovery emerging markets delivered strong performance on the back of improving commodity prices.
- The JSE/FTSE Alsi reached record highs over the month, despite the underlying economy being adversely influenced by both political and fiscal events.

Global: Growth continues

In the US, macroeconomic data remained encouraging with the better than expected Q3 GDP growth number of 3% surprising on the upside. Results from the tech sector were encouraging whilst corporate earnings were above expectations. In spite of concern over stubbornly weak inflation, investors remained confident and markets achieved new highs.

The Dow Jones returned 4.34% over the period whilst the S&P 500 rose 2.22%. The aftermath of the two hurricanes Irma and Harvey resulted in a surge in consumer spending as people sought to replace items lost in the storms. Indicative of this spend, the Conference Board Consumer Confidence Index streaked ahead hitting 125.9 which is the highest level since December 2000.

US Conference Board Consumer Confidence Index

Source: GTC/FactSet

The US Senate made certain progress in terms of the Trump administration's proposed tax reforms. Suggestions that any proposed corporate tax deductions might only be phased in over a five year period did detract from market enthusiasm particularly with regard to the more domestically based smaller cap issues. Having experienced some selling pressure in the previous month, large-cap technology stocks attracted further investment with the tech-heavy NASDAQ returning 3.57%.

Eurozone equities continued their steady improvement, spurred on by the European Central Bank's decision to continue with its quantitative easing programme, but reducing monthly purchases beginning January 2018 from Euro 60bn to Euro 30bn per month. This would continue to September 2018 but the door has been left open to continue with the programme should it be found necessary.

The equity markets took heart from this news and the MSCI EMU Index returned 2.4%. With rising prices both energy and materials were the best performers. Economic data remained encouraging with unemployment declining to 8.9% in September being the lowest level since January 2009. Whilst the region's GDP declined from the previous month's 0.7% to 0.6% this was seen as only marginal. The inflation rate remained stubbornly low declining to 1.1% from the previous month's 1.3%.

In the UK domestic political and economic uncertainties relating to Brexit continued to influence the market. Furthermore, concern was expressed that any increase in interest rates, which appeared to be on the cards, could have a negative impact on the market.

Despite these uncertainties a strong recovery in the resources sector saw the market improve as industrial commodity prices continued their strong run against the backdrop of stable global economic growth. The FTSE All-Share Index returned 1.9% for the month.

The Japanese market continued its improvement providing a more than welcome 5.5% in total return terms. This was largely as a result of the well accepted election results, which saw Prime Minister Abe win a landslide victory. For the market this signaled a continuation of quantitative easing which attracted considerable interest on behalf of foreign investors. Economic data displayed a continuation of improvement with CPI remaining at 0.7% and other indicators suggesting improvement going forward. Employment data suggests that Japan is operating close to full employment which augers well for wage growth as well as renewed capex.

On the back of encouraging economic data, Chinese stocks rose reaching a two and a half year high. A reduction in the reserve ratio requirement for local banks also helped encourage investor interest as well as improved stabilisation of the Yuan.

Continuing global growth lent strong support to emerging markets with the MSCI Emerging Markets Index outperforming the MSCI World Index. The combined influence of a continued Yellen type policy at the Fed, coupled with a sharp rise in global commodity prices, were largely the catalysts for this improvement. South Korea and Taiwan were amongst the best performers driven largely by demand for technology stocks.

Domestic: A sad tale

Of particular significance for the local market was the release of the much anticipated Medium-Term Budget Policy Statement by Finance Minister Malusi Gigaba. It unsurprisingly painted a grim picture of the dire financial straits that the country is in. The main shock is that the projected revenue shortfall for 2017/18 is a staggering R50.8bn - due to weak economic growth and below par tax collection.

This translates into a cumulative R209bn budget shortfall over the next three years. As a result the consolidated budget deficit is set to spike to 4.3% of GDP in the coming fiscal year, against a target of 3.1%, wiping out the last five years of fiscal consolidation.

The Finance Minister also slashed South Africa's 2017 GDP growth forecast to 0.7% from 1.3%. Growth is forecast at 1.1% in 2018 and 1.5% in 2019, while gross national debt is anticipated to increase to 61% of GDP by 2022. Revenue shortfall is expected at R50.80bn in 2017/18, R69.30bn in 2018/19 and R89.40bn in 2019/20. Indeed a sad tale from every perspective.

This announcement should have been sufficient to put the skids under the local equity market and yet to totally confuse the pundits the JSE/FTSE All-Share and Top40 Indices both reached record highs with the former rallying 6.26% and the latter returning 6.60% both in total return terms.

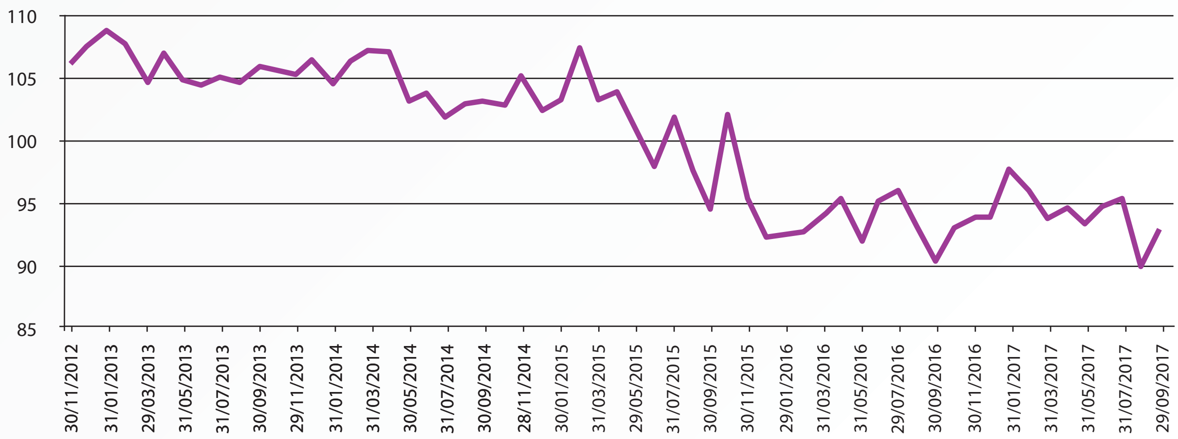
Admittedly, on the back of the finance minister's statement, the Rand came under significant selling pressure which resulted in dual listed stocks climbing to fresh peaks.

The headline CPI annual inflation rate in September 2017 was 5.1%. This rate was 0.3% higher than the corresponding annual rate of 4.8% in August 2017. On average, prices increased by 0.5% between August 2017 and September 2017. This was worse than the economists' consensus of 4.9% but remained comfortably within the Reserve Bank's target range of 3%-6%.

SACCI released its September 2017 SACCI Business Confidence Index (BCI). The BCI does not reflect business sentiment, but rather how businesses are reacting to and experiencing prevailing business conditions.

The BCI had declined to its lowest level so far in 2017 in August to reach 89.6 points, but recovered by 3.4 points to 93.0 in September 2017. This was marginally higher than its September 2016 level.

SACCI Business Confidence Index



Source: GTC/FactSet

Concerns that politicians view the Public Investment Corporation as a cash cow will loom large over discussions to establish an overarching pension fund for South Africa. The new fund wants to consolidate the more than 5 000 public and private retirement funds into one giant mandatory institution, possibly under government control. The new centralised retirement fund or National Social Security Fund (NSSF) will centralise current retirement funds estimated to be worth R3trn. It aims to force South Africans to save for retirement, as well as cross-subsidise lower income earners.

With political uncertainties continuing to bedevil the local equity market, a certain degree of solace can be taken from the fact that in spite of our concerns underlying fundamentals suggest that if anything our market performance has lagged that of other emerging markets.

As witnessed this month stock markets often surprise and being in the market was the wise place to be. Our recommendation is certainly to remain there.

GTC fund performances - October 2017

Client portfolios	1 Year* %	3 Year* %	5 Year* %	7 Year* %	10 Year* %
GTC EB Conservative	10.01	6.75	7.28	7.16	6.41
GTC Conservative Inflation Target - CPI+1%	5.95	6.22	6.51	6.53	6.97
GTC EB Moderate	12.27	6.76	8.87	8.61	7.90
GTC Moderate - Inflation Target - CPI+3%	7.95	8.22	8.51	8.53	8.97
GTC EB High Equity	15.59	8.24	10.41	9.93	8.83
GTC High Equity Inflation Target - CPI+5%	9.96	10.23	10.51	10.54	10.98
GTC EB Market Plus	16.69	7.59	11.63	11.18	10.06
GTC EB Market Plus - Benchmark	14.92	8.50	11.91	11.87	8.45
FTSE/JSE All Share Index (ALSI)^	18.35	7.39	11.30	11.56	8.07
FSTE/JSE Shareholder Weighted Index (SWIX)^	15.54	7.03	11.86	12.41	8.94
BEASA All Bond Index (ALBI)^	3.48	4.04	4.40	5.64	6.41
Cash (SteFi)^	6.00	5.49	4.85	4.65	5.60
MSCI World Index (R)^	23.02	13.87	18.88	17.08	8.43

*Annualised

GTC Performances are shown net of all fees

^Benchmark returns include 1.5% fees

The **GTC Conservative Fund** was ahead of its inflation adjusted target over the short and medium term periods.

The **GTC Moderate Fund** was ahead of its inflation adjusted target over the short term and performed in line over longer term periods. Equity markets remain the key driver of performance.

The **GTC High Equity Fund (previously Aggressive)** was ahead of its inflation adjusted target over the short term but lagged over the longer term periods. Equity markets remain the key driver of performance.

The **GTC Market Plus Fund** was ahead of its target over the short term but lagged over the medium term. The fund has managed to capture a large portion of the recent equity market upside.

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