consult • partner • manage

Market Update - Employee Benefits

February 2018

At a glance

Global equity markets experienced selling pressure following higher than expected US wage data which suggested that the Federal Reserve would adopt a more hawkish attitude in terms of interest rates. Initially this resulted in bond rates rising, followed soon thereafter by a sell-off in equities.

The MSCI World Equity Index returned a negative -4.1% for the month, whilst the MSCI Emerging Market Index came in weaker registering a negative -4.6% both in Dollar total return terms.

US equities were generally weaker over the month, but positive macroeconomic data resulted in some improvement in share prices by month end.

In line with global markets the Eurozone equity markets reflected negative returns for the month, with the healthcare sector faring the worst.

Suggestions from the Governor of the Bank of England that UK interest rates were likely to rise faster and sooner than expected added to negativity and the FTSE All-Share declined -3.4%.

Market uncertainty and a move to its safe haven status saw the Yen strengthen over the month with a resultant decline in Japanese equity prices.

Emerging market equities didn't escape the global sell-off and the declines were further exacerbated by Dollar strength resulting in overall negative returns.

Despite recent positive political developments, the local JSE/FTSE All-share succumbed to selling pressure and returned a negative -1.97% with the Top40 down -2.32% both in total return terms.

Global: Wage inflation the culprit?

US 10Y T-Note Yield (TPI) (US10YY-TU1)

Source: GTC/FactSet

The US equity markets suffered a sharp decline early in February, driven initially by wage inflation data which suggested that the Federal Reserve would be inclined to increase interest rates at a faster rate than was initially expected. This concern was further heightened by newly elected Federal Reserve Chairman Jerome Powell suggesting to the US Congress that there was scope to raise interest rates four times this year.

A further contributor to the market downturn was a sudden spike in the VIX Volatility Index which resulted in leveraged short volatility positions being forced to close out. However, continuing macroeconomic data confirmed the resilience of the economy which did result in some market improvement towards month end. Retail sales declined in January but business confidence levels remained near historic highs.
US bonds were subject to considerable volatility with the 10-year treasury yield rising to 2.9% for the first time since January 2014, before closing marginally lower.

Eurozone equities followed world markets down, closing the month with a negative return of -3.8% in total return terms. European markets closed in negative territory in January and the sell-off continued into the new month, with some recovery being evident towards month end. The softer market was as a result of fears that US interest rates would rise faster and sooner than expected.

The worst performing sectors were those which were perceived as bond proxies, with the healthcare sector displaying the largest declines. All sectors delivered negative returns but the best performers were to be found in the information technology and energy sectors.

The European Commission revised its GDP growth numbers upwards, now expecting growth of 2.3% in 2018 and 2% in 2019.

The composite purchasing manager's index declined to 57.5 points from its 12 year high in January. Inflation declined marginally from 1.3% in January to 1.2%.

In line with global markets, UK equities experienced a sharp sell-off early in the month. Bond proxy equities were some of the worst performers as they reflected investors' fears of central banks, including the Bank of England, adopting a more constraining monetary policy. With global macroeconomic data continuing to display positive growth, the Bank of England marginally increased its GDP forecast for 2018 from 1.7% to 1.8%. Comments from the bank's governor Mark Carney indicated that interest rates were likely to go up sooner and faster than was previously expected.

The safe haven attraction of the Japanese Yen saw the currency appreciate considerably over the month and this combined with the global equity sell-off saw the Nikkei Index return a negative-3.7%. Economic data was somewhat mixed, reflecting a slight slowing in the economy - but this could possibly be attributed in some way to the timing of the Chinese New Year, as well as inclement weather resulting in a decline in domestic consumption numbers. In line with global markets, volatility spiked, leading to some outperformance in typically defensive areas such as telecomms and pharmaceuticals.

Emerging markets did not escape from wider market volatility and recorded a negative return of -4.6% modestly underperforming the MSCI World Index.

Chinese equities declined over the month, but economic indicators remained positive with the Caixin Markit manufacturing PMI unchanged at 51.5 in January, while industrial growth increased to 6.2% year-on-year in December.

Domestic: A change to the old guard.

Politics, the Budget and the downturn in global equity markets took centre stage during February. Cyril Ramaphosa was sworn in as the new president of South Africa following the resignation of Jacob Zuma. The budget speech held no great surprises given the current state of the economy, the main feature being a rise of 1% in the VAT rate, and a substantial allocation of R57bn to higher education over the next three years.

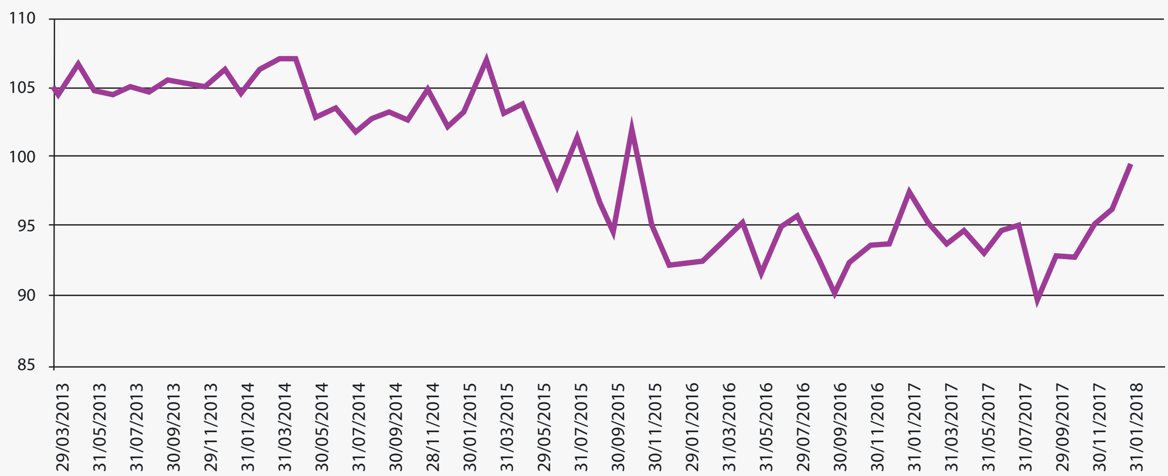
Volatility levels on most global markets, as well as the JSE rose to the highest level in two years, resulting in a sharp market sell-off. The CBOE VIX index rose dramatically to a high of 37.32 points. This spooked investors which resulted in the MSCI Emerging Market Index declining -4.73% in Dollar terms. Despite the positive news on the local political front, the global sell-off impacted our local market negatively with the JSE/FTSE All Share down -1.97% while the Top40 declined -2.32% both in total return terms.

South Africa's inflation rate slowed in January, easing pressure on the central bank to maintain a tight monetary policy. Inflation slowed to 4.4% from 4.7% in December. The median of 14 economists' estimates in a Bloomberg survey was for 4.4%. Prices rose 0.3 % in the month. Price growth has been within the Reserve Bank's target range of 3-6% for 10 months - the longest run since 2015.

VAT is to increase by 1% to 15% from 1 April this year, to raise R22.9bn more for the fiscus. This, and other new tax measures announced by Finance Minister Malusi Gigaba in the 2018-19 budget, will raise an additional R36bn for the fiscus. At the same time R85.7bn has been slashed from government spending over the next three years in a bid to accelerate the drive to narrow the budget deficit and stabilise debt.

President Cyril Ramaphosa said he would not allow 'smash and grab' interventions when undertaking land expropriation without compensation, a policy he has promised to pursue to speed up the transfer of land. He reiterated in a speech to parliament that expropriation of land without compensation should be done in a way that improves food security and agricultural output.

SACCI Business Confidence Index



Source: GTC/FactSet

The South African Chamber of Commerce and Industry (SACCI) said South African business confidence rose to the highest level since 2015. The index measuring business sentiment advanced to 99.7 in January from 96.4 in December.

Mining production increased by 0.1% year-on-year in December 2017. The main positive contributor was iron ore. Gold and coal were significant negative contributors. Total mining production was 4% higher in 2017 compared with 2016. The 4% increase in annual mining production followed a decrease of 4% in 2016 and an increase of 3.2% in 2015.

Manufacturing production increased by 2% in December 2017 compared with December 2016. Contributions were made across a wide number of divisions.

Seasonally adjusted manufacturing production increased by 1.1% in December 2017, compared with November 2017. This followed month-on-month changes of 1.1% in November 2017 and 1% in October 2017.

No doubt recent political events have raised the hopes and aspirations of the majority of South Africans for a better future, and whilst the road ahead might not be an easy one, the spirit of the nation will surely see us succeed.

World uncertainties continue to drive increased market volatility but the underlying global macroeconomic data clearly demonstrates continued economic growth and remaining invested will surely bring its just rewards.

GTC fund performances - February 2018

Client portfolios	1 Year %	3 Year* %	5 Year* %	7 Year* %	10 Year* %
GTC EB Conservative	7.03	5.23	6.19	6.42	6.59
GTC Conservative Inflation Target - CPI+1%	5.27	6.69	6.46	6.55	6.74
GTC EB Moderate	8.24	4.67	7.52	7.98	8.42
GTC Moderate Inflation Target - CPI+3%	7.27	8.69	8.46	8.56	8.74
GTC EB High Equity	10.75	5.54	8.77	9.14	9.36
GTC High Equity Inflation Target - CPI+5%	9.27	10.69	10.46	10.56	10.75
GTC EB Market Plus	12.23	5.27	10.01	10.27	9.97
GTC EB Market Plus - Composite Benchmark	10.60	5.42	10.06	10.97	8.46
FTSE/JSE All Share Index (ALSI)^	15.71	4.51	9.59	10.46	8.18
FSTE/JSE Shareholder Weighted Index (SWIX)^	16.01	4.79	10.58	11.91	9.47
BEASA All Bond Index (ALBI)^	12.65	6.12	5.74	7.56	7.73
Cash (SteFi)^	5.93	5.62	4.99	4.71	5.49
MSCI World Index (R)^	2.41	5.37	13.42	13.67	7.09

*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 one year and marginally lagged over longer term periods. Equity markets remain the key driver of performance.

The **GTC Moderate Fund** was ahead of its inflation adjusted target over one year and marginally lagged 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 one year and lagged over longer term periods as real rate detraction from equity markets impacts over the medium term.

The **GTC Market Plus Fund** was ahead of its target over the short term and in line over the long term.

Contact us

Head - Investment Analytics
Clive Eggers
T +27 (0) 21 713-8500
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 - 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

Director - Asset Management
Manty Seligman
T +27 (0) 10 597-6800
E mseligman@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

An Authorised Financial Services Provider
FSP. no. 731

GTC is nationally represented in Johannesburg, Cape Town and Durban

GTC Group products and services include: Employee Benefits Consulting • Employee Benefits Administration • Private Client Wealth Management • Healthcare Consulting • Short-Term Risk Solutions • Stockbroking • Derivatives Trading • Unit Trust Management • Asset Management • Fiduciary Services