Market Update - Employee Benefits

May 2018

At a glance

The MSCI World Equity Index gained marginally in May, although performance was mixed across developed nations and returned 0.6% in total Dollar return terms. The MSCI Emerging Market Index encountered strong headwinds on the back of a rampant US Dollar, as well as on uncertainties regarding a potential global trade war and returned a -3.5% in total Dollar return terms.

US equity markets displayed continuing strength, despite trade uncertainties, as strong economic data continued to underpin investor confidence.

Eurozone equities were undermined by the political events unwinding in Italy, which suggested a potential break-up of the European Union. Financials, particularly banks, experienced a sharp sell-off.

The FTSE All-Share continued to confound the critics with the Index returning 2.8% in total Sterling return terms as the currency continued to weaken. Economic data remained negative.

Geo-political uncertainties saw a flight to Yen safety with the currency strengthening and this, coupled with Trump's rhetoric regarding motor vehicle imports, resulted in the Japanese market declining -1.7% for the month.

In line with the majority of global equity markets the FTSE/JSE All Share Index experienced a torrid May, declining -3.5% led by sharp falls in retail and financial shares. Disappointing corporate earnings reports also helped create a negative market attitude.

Global bond yields declined i.e. prices rose, suggesting increased risk aversion mainly driven by concerns over unfolding events subsequent to the Italian elections.

Global: Viva Italia!

US equities continued to advance in May, with earnings and economic data providing a buffer against the machinations of President Trump and his continued trade tariff rhetoric. The Trump administration confirmed it would implement punitive trade tariffs on steel and aluminium imports from Canada, Mexico and the EU, and also withdrew from the Iranian nuclear accord.

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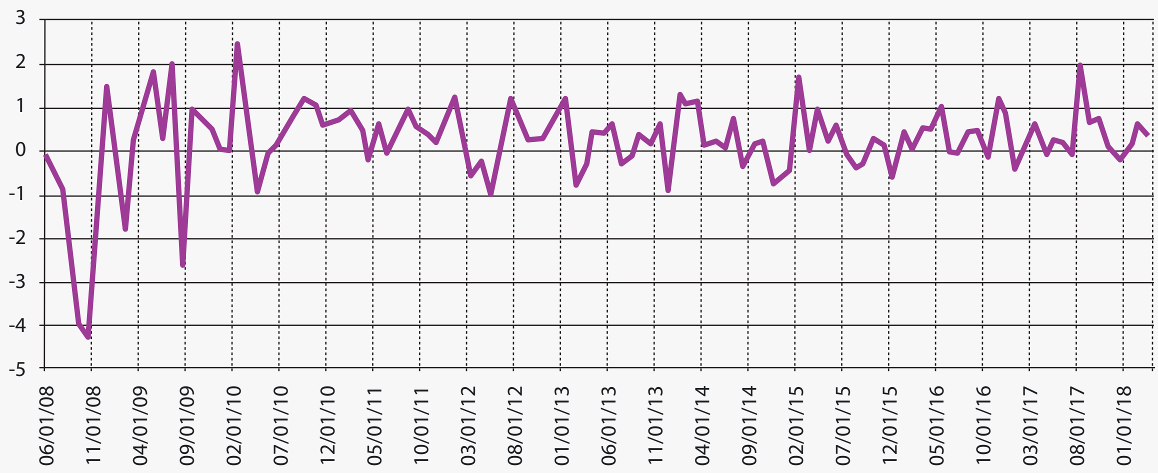
US economic growth slowed slightly more than initially thought in Q1, amid downward revisions to inventory investment and consumer spending, but income tax cuts are likely to boost activity this year. Gross domestic product increased at a 2.2% annual rate instead of the previously reported 2.3%. The economy grew at a 2.9% in Q4 2017.

United States - Retail sales



Source: GTC/FactSet

US retail sales increased moderately in April as rising fuel prices impacted discretionary spending. Retail sales rose 0.3% last month after surging 0.8% in March. Last month's increase in retail sales was in line with economists' expectations. Retail sales in April increased 4.7% year-on-year.

US unemployment declined to 3.8% - its lowest level since December 2000 - but actual wage inflation remained muted suggesting that the Federal Reserve's programme of interest rate normalisation remains on track.

Geo-political uncertainties continued to plague the EU with Eurozone equities declining and the MSCI EMU Index returning -1.4% in Euro terms. The outcome of the Italian elections dominated the markets with the prospect of a potential snap election resulting in a sharp sell-off of Italian assets. Political risk was also an issue in Spain. Against this backdrop financial counters led the decline, followed by energy and utilities.

Economic data from the Eurozone remained positive, although reflecting a slowdown relative to last year's performance. GDP for Q1 is estimated at 0.4% lower than the 0.7% indicated for Q4 2017.

Annual inflation came in at 1.9% in May - not far off the targeted 2%. This surge in inflation was largely as a result of a sharp increase in the oil price.

The flash Eurozone PMI Index for May came in at a concerning 54.1 following April's 55.1. Further evidence of economic growth was the decline in unemployment to 8.5% from the previous year's 9.2%.

The absence of an interest rate hike in the UK provided the impetus for a decline in Sterling, which in turn provided the catalyst for the FTSE All-Share to return 2.8%, a second consecutive month of strong relative performance vis-à-vis global equities.

Crude oil prices continued to reflect a potential tightening in supply as the US withdrew from the Iran nuclear treaty. This, coupled with supportive Chinese economic data, resulted in the FTSE resources sector performing particularly well.

In line with other global equity markets, financials, particularly banks, came under selling pressure subsequent to the Italian election impasse. Economic data continued to disappoint with the Bank of England downgrading UK economic growth from the previous 1.8% to 1.4%.

Early indications saw the Japanese equity market continuing to improve on its April performance, but this was followed by a sharp decline as investors piled into the Yen as a global risk-off attitude prevailed.

The market delivered a disappointing negative -1.7% for the month. This sudden reversal reflected investor concerns over political developments in Europe, as well as the perceived threat from the Trump administration's plans to impose punitive tariffs on motor vehicle imports.

This potential threat could have significant implications for the Japanese motor industry, a major contributor to GDP. Economic data was mixed but pointed to an improving economy.

China's economy continues to remain buoyant. That is the picture that emerges from a new gauge of economic activity developed at Bloomberg Economics, which aggregates the earliest available indicators into one reading for the first time.

While an ongoing campaign to curb financial excess and deflate property bubbles is taking its toll on some parts of the economy, the damage is being mitigated by industry benefiting from increased pricing power and the recent strength of global trade.

Industrial profit growth accelerated to 21.9% in April from a year earlier.

Domestic: A new dawn?

In line with the majority of global equity markets the FTSE/JSE All Share Index experienced a torrid May, declining -3.5% led by sharp falls in retail and financial shares. Disappointing corporate earnings reports also helped create a negative market attitude. The FTSE/JSE Financials Index declined -6.3% largely as a result of Rand currency depreciation which had a particularly negative effect on the banking sector.

The FTSE/JSE Industrials Index came under renewed selling pressure, declining some -5.1% whilst the FTSE/JSE Resources Index reversed the trend returning a positive 4.8% for the month. Listed property shares as a broad bond proxy experienced a difficult month, as bond yields sold off on the back of concern over the development of events, particularly in emerging markets and more particularly in Argentina and Turkey and declined -5.9%.

The All Bond Index experienced a negative month, down -2% as Turkey and Argentina rushed to shore up a major sell-off in their bonds which resulted in a risk-off attitude prevailing. The Rand closed the month some -1.4% lower against the US Dollar but held up reasonably well against both the Euro and Sterling, improving 1.3% and 1.6% respectively.

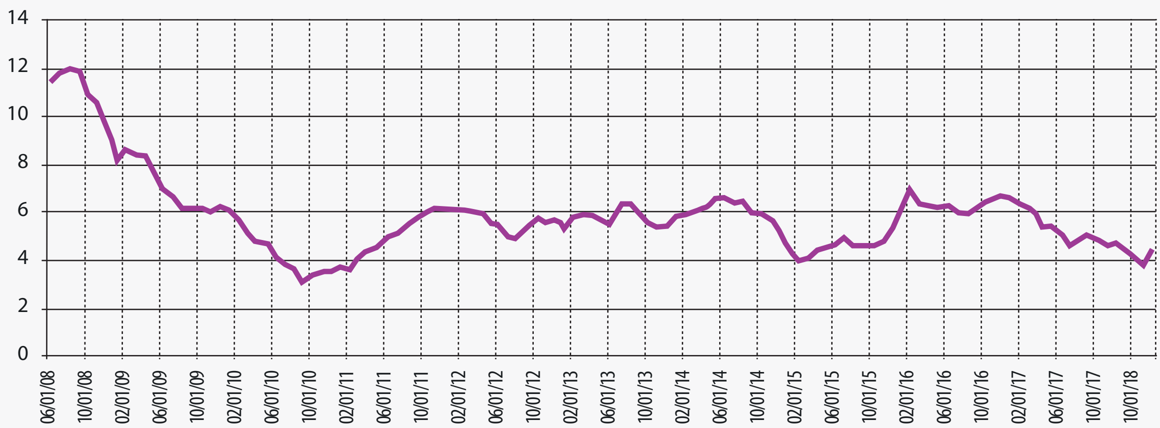
In line with expectations, the Monetary Policy Committee (MPC) of the SA Reserve Bank decided to keep the repo rate unchanged at 6.5%. At its previous meeting in March, the MPC decided to cut interest rates by 25 basis points to take the repo rate to 6.5% and the prime lending rate to 10%.

At 6.5% the MPC still assesses the stance of monetary policy to be accommodative and appropriate, given the forecast inflation trajectory and the current state of the economy.

Growth in private sector credit extension in South Africa declined sharply to 5.07% in April against the market's forecast of 6.1% from 5.98% in March.

South Africa trade surplus decreased to R1.14 billion in April of 2018, from a downwardly revised R9.3 billion in the prior month, missing market expectations of a R3.7 billion surplus. Considering the January to April period, the country recorded a trade deficit of R17.6 billion.

South Africa - Consumer price inflation



Source: GTC/FactSet

Inflation, as measured by the annual change in the consumer price index, increased less than expected to 4.5% in April from 3.8% in March. Economists had expected inflation to rise as the various tax and levy increases introduced in the 2018 budget took effect on 1 April. At 4.5%, April's inflation came in lower than economists' consensus of 4.7%. It places inflation exactly in the middle of the Reserve Bank's 3-6% target range, strengthening the case for the central bank to keep interest rates steady.

The Reserve Bank's March leading indicator results point to an uptick in SA's economy in six months' time.
The March figure took the average for Q1 of 2018 to 107.5 points, a 6% rise from Q4 2017, indicating a rise in the business cycle and in turn GDP growth in Q4 of 2018. But while Tuesday's leading indicator report predicts good news in the fourth-quarter GDP figures, the Reserve Bank's figures from Q2 of 2017 point to bad news when Statistics SA reports the first quarter's GDP figures.

The Reserve Bank's leading indicator points to a potential dip in the business cycle and GDP in Q1 2018 a risk that recent industrial production and retail data have confirmed.

May has indeed been a difficult month for investors as increased volatility has continued to unsettle markets and the uncertainties surrounding future global economic growth remain. However, these are not new phenomena and markets have a way of finding their true value based on economic fundamentals.

The positive economic forces currently present in the global economy will remain strong enough to overcome the potentially negative impact tighter monetary policy will have, but there could be some short-term volatility as markets adjust.

GTC fund performances - May 2018

Client portfolios	1 Year %	3 Year* %	5 Year* %	7 Year* %	10 Year* %
GTC EB Conservative	5.66	5.07	5.35	6.51	6.50
GTC Conservative Inflation Target - CPI+1%	5.56	6.34	6.33	6.52	6.56
GTC EB Moderate	5.15	4.24	6.19	7.46	8.41
GTC Moderate Inflation Target - CPI+3%	7.56	8.35	8.33	8.52	8.57
GTC EB High Equity	5.25	4.54	7.05	8.71	9.57
GTC High Equity Inflation Target - CPI+5%	9.56	10.35	10.33	10.52	10.57
GTC EB Market Plus	5.90	4.09	7.70	9.51	9.57
GTC EB Market Plus - Composite Benchmark	4.25	4.64	8.16	10.40	8.00
FTSE/JSE All Share Index (ALSI)^	6.41	3.89	7.54	9.75	7.39
FSTE/JSE Shareholder Weighted Index (SWIX)^	2.98	2.98	8.01	10.44	8.50
BEASA All Bond Index (ALBI)^	8.81	6.52	5.72	6.83	8.07
Cash (SteFi)^	5.82	5.68	5.09	4.76	5.40
MSCI World Index (R)^	4.87	5.91	10.90	14.84	7.14

*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 performing in line over longer term periods.

The **GTC Moderate Fund** was lagging its inflation adjusted target over the short and medium term periods as real rate detraction from equity markets impacts.

The **GTC High Equity Fund (previously Aggressive)** was lagging over medium and longer term periods as real rate detraction from equity markets impacts.

The **GTC Market Plus Fund** was ahead of its target over the short and long terms. Our manager blend has a component of protection which we feel is prudent in the current environment.

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