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Market Update - Employee Benefits

July 2018

At a glance

Global equity markets continued to improve in July with US markets leading the way on the back of strong earnings numbers from across most sectors of the economy. The MSCI World Index returned 3.1% whilst the MSCI Emerging Market Index returned 2.2%, both in total return terms.

Economic data emanating from the US continued to impress with employment numbers at record highs and company earnings beating analysts' forecasts. The S&P 500 returned a sound 3.7%.

Eurozone equities experienced an improved month in July, in spite of an escalation in trade war rhetoric which was centred largely on the motor industry. The MSCI EMU Index managed to return 3.7% in total Dollar return terms.

The UK's FTSE All Share managed a move into positive territory, as Sterling weakness continued to buoy earnings from large cap offshore companies and posted a return of 1.3% for the month in Sterling terms.

With the Yen weakening marginally against a stronger US Dollar, the Japanese equity managed to stage a strong recovery in the latter part of the month returning 1.3%.

In spite of the continued discourse surrounding US/China punitive trade tariffs, emerging markets staged a strong recovery led by Mexico and Brazil, as political uncertainties eased. The MSCI Latin America Index jumped a whopping 9.2%.

SA equities continued to lag global markets, with resources and industrial shares dragging down performance. The strengthening of the Rand exerted further downward pressure on equity prices, with the FTSE/JSE All Share delivering a negative return of -0.2% for the month.

Global: First shots fired in the trade war!

US equities continued to improve as employment numbers were indicative of a growing economy, and earnings results were ahead of expectations. The US June nonfarm payrolls added 213,000 new jobs, far outweighing expectations of 195,000, while May's employment numbers were also revised upwards.

Although concerns remained over the Trump administration's proposed punitive trade tariffs, an indication later in the month that the US, China and Europe were prepared to renegotiate trade terms also helped improve market sentiment. The oil price registered a sharp decline as OPEC and Russia announced an increase in supply.

US economic growth accelerated to an annual rate of 4.1% in the second quarter, compared with a revised 2.2% in the first quarter. This is the fastest rate of growth in almost four years. The second quarter gain was close to the 4.2% rate economists had forecast. The acceleration of real gross domestic product in the second quarter reflected a jump in consumer and government spending.

Eurozone equities improved considerably over the month, as trade tensions eased after a meeting between President Trump and EU President Juncker. These talks related specifically to motor manufacturers as well as other export-related sectors.

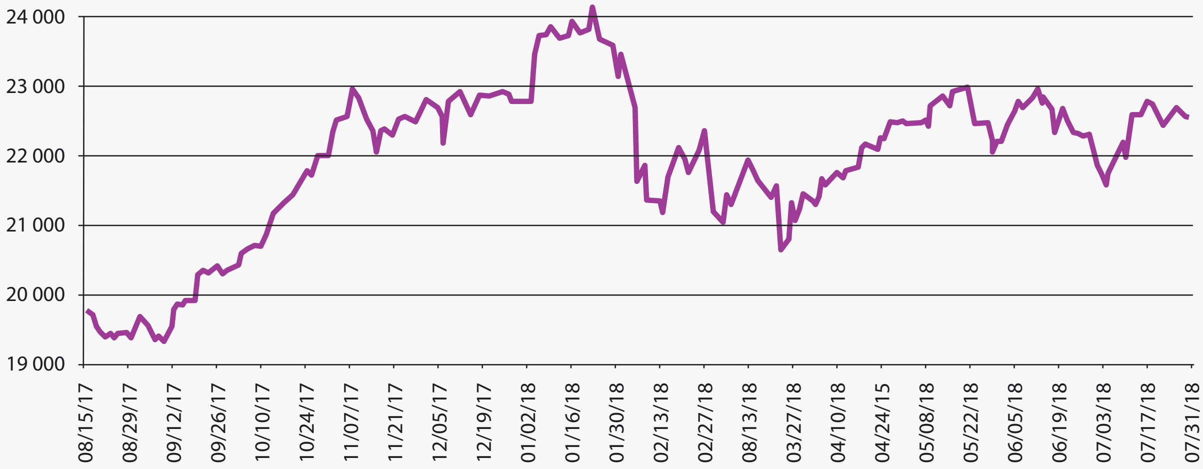
An agreement was reached to work towards implementing zero tariffs on non- auto industrial products, while new vehicle tariffs will be put on hold subject to further negotiation. GDP growth in Q2 came in at 0.3% down from Q1's 0.4% confirming the slowdown in economic activity.

Inflation rose to 2.1% up from June's 2.0% on the back of increased energy prices. The flash composite purchasing manager's index declined in July to 54.3 from June's 54.9, whilst unemployment remained steady at 8.3%.

Concern over a possible "no deal" in terms of Brexit resulted in continued weakening of Sterling. Whilst this was beneficial to the large cap global players in the FTSE 100, the impact of the uncertainties surrounding the overall economy was reflected in the FTSE 250 which returned a negative -0.1% for the month.

From a positive perspective, the FTSE All Share returned 1.3% for the month as retail sales continued to improve and there was an uptick in the services sector.

Japan Nikkei 225



Source: GTC/FactSet

The Japanese equity market experienced a sharp decline early in July on Yen strength, but the situation was reversed towards month end as the Dollar weakened and the market delivered a return of 1.3%. Much speculation surrounded the Bank of Japan's policy meeting, which resulted in significantly increased volatility particularly in the bond market.

However, no significant changes to monetary policy were forthcoming, with only minor tweaks intended to ensure more stable monetary expansion over the next few years.

Japan's manufacturing sector recorded its slowest growth in 20 months in July with business confidence also dipping. The Nikkei Markit flash Japan manufacturing purchasing managers' index for July came in at 51.6, down from 53 in the previous month.

An easing of political tensions in both Mexico and Brazil resulted in the MSCI Latin American Index delivering a strong 9.2% which resulted in the MSCI Emerging Markets Index rebounding from previous lows to return 2.2%. Running against the trend was market performance from China.

The continuing and escalating US/China trade spat weighed heavily on the Chinese market as the Trump administration followed through on its threat and announced a further $200bn punitive tariff plan. In response, China has announced a series of counter threats and has moved to provide fiscal stimulus and credit easing.

Indicative of the risk-off sentiment prevailing in terms of emerging markets, currency outflows for June 2018 totalled approximately US$40bn, up from the US$10bn in May.

Domestic: Slow road ahead.

South African equities failed to follow global markets higher in July, as the local economy remained in the doldrums and a firming of the Rand in the latter part of the month impacted on market performance. The FTSE/JSE All Share Index declined to yield a negative -0.2%, with the Resources and Industrial indices being the worst performers.

The platinum price declined 1.7% and this coupled to a decline of 2.3% in the gold price were contributing factors to the poor Resource Index performance.

The Financials Index returned 4.7% but a negative performance from the Industrial Index (-2.0%) helped drag the All Share Index down.

Listed property was -0.5% softer. The JSE All Bond Index returned 2.4%, while the Inflation Linked Bond Index ended the month a touch higher at 0.3%. SA cash delivered a modest 0.6%.

The ANC's decision to expropriate land without compensation has certain consequences for the South African economy.

It comes following yet another quarter in which the South African economy has shed jobs. The move is set to further impact investor sentiment and overall confidence in the economy.

South Africa - Unemployment rate (%)

Source: GTC/FactSet

The official unemployment rate increased by 0.5% to 27.2% in the second quarter of 2018, up from 26.7% in the first three months of the year. The number of discouraged job seekers rose to 2.9 million people. Manufacturing has lost 55 000 jobs year-on-year, with basic metals and food production the main drivers of the employment losses in the sector.

The South African new-vehicle market expanded by 2.6% in July, compared with the same month last year. The latest sales numbers indicate that July new passenger car sales gained 4.3%. Export sales again disappointed after a 15.2% drop in June, to decline by 19.2% in July. Naamsa says that the improvement in domestic sales, specifically new-car sales, was encouraging when viewed against the background of recent weak economic growth.

The headline CPI annual inflation rate in June 2018 was 4.6%. This rate was 0.2% higher than the corresponding annual rate of 4.4% in May 2018. Consumer inflation accelerated in June mainly due to rising fuel prices. The increase was slightly slower than the expected increase of 4.8%. Food price inflation was fairly benign.

Retail trade sales increased by 1.9% year-on-year in May 2018. The highest annual growth rates were recorded for retailers in household furniture, appliances and equipment and all other retailers. The main contributor to the 1.9% increase was all other retailers. Seasonally adjusted retail trade sales increased by 1.1% in May 2018, compared with April 2018.

China has pledged to invest $14.7bn in SA, in order to strengthen economic ties and increase trade. Meanwhile, Eskom has secured a $2.5bn long-term loan facility from the China Development Bank. Additionally, Industrial and Commercial Bank of China has agreed to Provide Transnet a $300m loan.

South Africa's trade surplus increased to R 3.52bn from an upwardly revised R1.17bn in the previous month and below market expectations of a R 5.9bn surplus. Considering the January to May period, the country posted a trade deficit of R17.7bn.

The SA Reserve Bank's monetary policy committee has left the repo rate unchanged at 6.5% in a unanimous decision. The announcement was in line with expectations of most economists. With the repo rate unchanged, the prime lending rate will remain at 10%.

The central bank expects GDP growth of 1.2% in 2018, down from its previous estimate of 1.7%. SARB expects growth to increase to 1.9% in 2019.

Whilst the patience of local investors is being sorely tested over the apparent lack of any real domestic market momentum, bear in mind that the underlying portfolio valuations remain positive and ultimately these will reflect in equity prices.

Unquestionably our economy is only sputtering along but events are underway which hopefully will bear fruit in the not too distant future. Bear in mind too that approximately 25% of GTC's portfolios are invested offshore, bringing a comforting element of diversification into the mix.

GTC fund performances - July 2018

Client portfolios	1 Year %	3 Year* %	5 Year* %	7 Year* %	10 Year* %
GTC EB Conservative	5.29	5.52	5.85	6.83	6.97
GTC Conservative Inflation Target - CPI+1%	5.68	6.31	6.45	6.48	6.37
GTC EB Moderate	4.85	4.81	6.66	8.13	9.02
GTC Moderate Inflation Target - CPI+3%	7.68	8.31	8.46	8.48	8.38
GTC EB High Equity	4.74	5.08	7.52	9.26	10.12
GTC High Equity Inflation Target - CPI+5%	9.68	10.31	10.46	10.48	10.38
GTC EB Market Plus	5.23	4.70	8.15	10.11	10.20
GTC EB Market Plus - Composite Benchmark	5.25	5.24	8.96	11.29	9.19
FTSE/JSE All Share Index (ALSI)^	5.61	4.84	8.42	10.78	9.14
FSTE/JSE Shareholder Weighted Index (SWIX)^	3.56	3.78	8.80	11.36	10.12
BEASA All Bond Index (ALBI)^	9.54	6.65	6.44	6.77	7.51
Cash (SteFi)^	5.80	5.74	5.17	4.80	5.33
MSCI World Index (R)^	8.95	6.90	12.33	16.86	9.34

*Annualised

GTC Performances are shown net of all fees

^Benchmark returns include 1.5% fees

The **GTC Conservative Fund** was lagging its inflation adjusted target over the short term 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 continues to impact.

The **GTC High Equity Fund (previously Aggressive)** was lagging its inflation adjusted target as real rate detraction from equity markets continues to impact.

The **GTC Market Plus Fund** was performing in line with its target over the short and longer term periods. Our manager blend has a component of protection which we feel is prudent in the current environment.

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