

Market Update - Employee Benefits

August 2018



At a glance

Global equities continued to gain over the month but performance was skewed by the Turkish currency crisis, as well as the ongoing US/China trade tariffs dispute. The MSCI World Equity Index returned 1.2% in total return terms, however the MSCI Emerging Markets Index came under severe selling pressure and returned a negative -2.7%.

Economic data from the US remained robust resulting in equity markets strongly outperforming their peers. The S&P500 returned 3.3% in total return terms.

European banks were subject to concerns surrounding emerging market debt, particularly in relation to Turkey, resulting in equities declining with the MSCI EMU Index returning a negative -2.7%.

The UK's equity market exposure to emerging markets resulted in a significant sell-off as a risk-off attitude on the part of investors prevailed. The FTSE All-Share declined -3.1% in total return terms.

Uncertainties surrounding the US tariff wars resulted in the Japanese equity market delivering a negative return of -1.0%, whilst the Yen continued to trade in a narrow band.

A currency crisis in Turkey and Argentina resulted in all emerging market currencies and equity markets experiencing a sell-off, and this, combined with further escalation in the Trump tariff war with China saw negative returns for the month.

South African equities, on the back of a weaker Rand, outperformed global markets returning 2.3% for the month - largely driven by improving resource and industrial counters.

Global

In spite of global geopolitical uncertainties, the US market continued to forge ahead. Economic data remained robust with Q2 GDP advancing to 4.2% on an annualised quarterly basis, which was at the fastest rate in four years. Consumer spending continued apace and this, coupled with lowered taxes and government spending, were the main catalysts for the renewed growth.

Corporate earnings also continued to surprise on the upside and exports surged ahead of the proposed Chinese tariff increases. The technology sector shone with Amazon and Apple leading the pack, whilst the energy sector came under pressure as a result of China including US crude oil in its tariff targeted products. The S&P500's return of 3.3% for the month was indicative of investors' appetite for equities as an investment.

The Turkish currency crisis impacted negatively on Eurozone equities, with banking shares having to weather the storm as the Turkish Lira declined sharply and bond yields rose. Italian banks also experienced selling pressure as concerns over the budget due to be presented to the EU in October caused some consternation. Automobile stocks, particularly the German manufacturers', declined over ongoing trade worries surrounding the Trump administration's threat of imposing a 20% tariff hike. In spite of the decline in equity markets, economic data remained fairly positive with Q2 GDP growth being revised upward to 0.4% from the previous 0.3%.

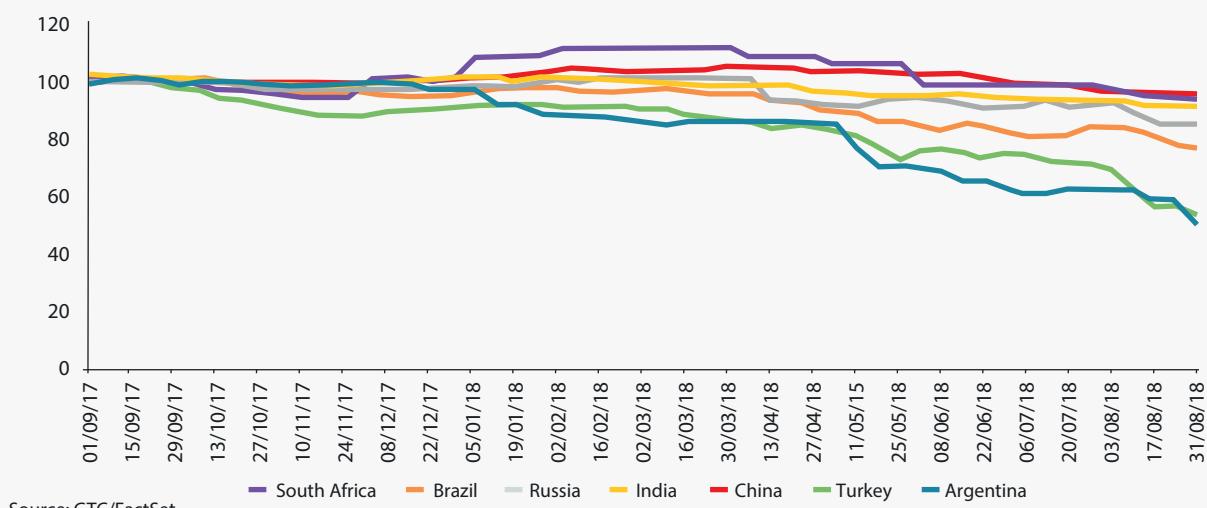
The composite PMI remained positive, with a slight increase from 54.3 in July to 54.4 in August. German business confidence indicators remained positive.

The ongoing Brexit negotiations and an escalating trade tariff war between the US and China weighed heavily on the FTSE All-Share, which declined -3.1%. This was particularly evident in stocks that include emerging market content. In spite of the Bank of England having marginally increased base rates, Sterling continued to decline which was exacerbated by further US Dollar strength.

In spite of a slowdown in Q1, GDP business conditions improved in Q2 coming in at 0.4%. The Bank of England has maintained its GDP outlook for the year at 1.4%. Mining counters as well as Asian financials were the worst performers, with the former negatively impacted by weaker Chinese economic data.

External factors continue to be the main short-term drivers of Japanese equities, which began August on a weak note - partially recovering at month end, but nevertheless returned a negative -1.0%. Global trade related issues continued to dominate market sentiment, with economic data remaining neutral and leaving the market somewhat directionless. Extreme weather conditions throughout Japan are also likely to impact economic performance.

Japan Nikkei 225



The currency crisis in Turkey, coupled with the US/China tariff war, as well as a rampant Dollar all contributed to weigh heavily on emerging markets, with the MSCI Emerging Market Index declining -2.7%.

All emerging markets exposed to the negative effects of global liquidity tightening experienced currency weakness - with South Africa being in the forefront.

China and Latin America trailed the index. The Chinese economy is displaying further signs of weakness,

with data showing investment slumped to a record low in the first seven months of the year and retail sales slowed. Output at factories and workshops expanded 6% year-on-year in July, in line with June's reading but short of the 6.3% forecast in a Bloomberg News survey.

Retail sales rose 8.8% in July, down from 9% in June, and also missing estimates of 9.1%.

Fixed-asset investment expanded just 5.5% in January to July, the slowest pace on record.

Domestic

A considerably weaker Rand down 10.6% allied to an improvement in both resource and industrial counters, resulted in the FTSE/JSE All Share Index outperforming global markets and returning 2.5% for the month.

In spite of weakening commodity prices, the FTSE/JSE Resources Index returned 5% while the Industrial Index returned 1.8%. Listed property continued to improve, returning 2.1% for the month.

The JSE All Bond Index came under selling pressure declining -1.9% as contagion spread from the economic crisis in Turkey - with yields selling off 39 basis points. Inflation linked bonds returned a slightly lower -0.2% while cash returned a positive 0.6% for the month.

Continuing negative economic developments in Turkey and Venezuela, as well as local concerns over land expropriation without compensation, continued to impact negatively on investor confidence.

Growth in private-sector credit demand in South Africa slowed to 5.41% in July from 5.68% in June.

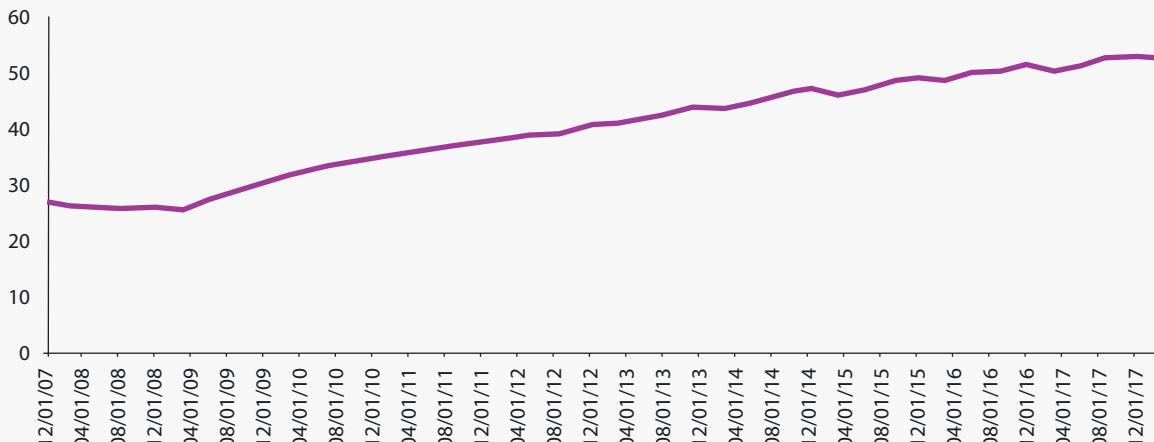
Expansion in the broadly defined M3 measure of money supply increased to 6% in July from 5.77% the prior month. Inflation accelerated to the highest level in ten months in July, driven by higher fuel prices. Consumer prices rose 5.1% from a year earlier, compared with 4.6% in June. The price of fuel was 25% higher in July than a year earlier. Excluding fuel prices, inflation would have been 4.3% last month.

Mining production increased by 2.8% year-on-year in June 2018. The largest positive contributors were: Platinum Group Metals (PGMs), diamonds and iron ore. Gold was a significant negative contributor.

Seasonally adjusted mining production increased by 0.8% in the second quarter of 2018, compared with the first quarter of 2018. PGMs were the largest positive contributor.

Retail trade sales increased by 0.7% year-on-year in June 2018. The main contributor to the 0.7% increase was all 'other' retailers. Seasonally adjusted retail trade sales decreased by -1.2% in June 2018, compared with May 2018.

South Africa - Government Debt (% of GDP)



Source: GTC/FactSet

The IMF is concerned about the rapid increase in SA public debt, which has doubled as a share of GDP over the past decade to 53% in 2017, and is set to continue climbing. The fund suggested the government implement a more realistic expenditure ceiling or add a debt ceiling to curb the debt trajectory. Though the fund expects economic growth to pick up and average about 1.8% over the medium term, this mostly cyclical recovery will not impact unemployment and inequality.

The official unemployment rate increased by 0.5% to 27.2% in the second quarter, up from 26.7% in the first three months of the year.

The increase in the unemployment rate was due to a decline of 90 000 people in employment, as well as an increase of 102 000 people who became unemployed.

Additionally the number of discouraged job seekers rose to 2.9 million people. The Standard Bank South Africa purchasing managers index (PMI) contracted for the first time in six months in July, resulting from a decline in output and new orders. The PMI sank below the 50 mark, separating expansion from contraction to 49.3 in July from 50.9 in June, the first time since January, with firms commenting on weaker demand and widespread strikes.

Equity markets languish on uncertainty, and currently we are experiencing just such an environment. Unfortunately emerging market contagion continues unabated and the tweets emerging from the White House remain somewhat disturbing. For investors a long term strategy is called for - together with a great deal of patience.

GTC fund performances - August 2018

Client portfolios	1 Year %	3 Year* %	5 Year* %	7 Year* %	10 Year* %
GTC EB Conservative	6.71	6.25	6.14	7.06	6.87
GTC Conservative Inflation Target - CPI+1%	6.32	6.26	6.42	6.48	6.25
GTC EB Moderate	6.39	5.93	6.74	8.53	8.92
GTC Moderate Inflation Target - CPI+3%	8.32	8.26	8.42	8.48	8.25
GTC EB High Equity	6.55	6.55	7.56	9.80	10.02
GTC High Equity Inflation Target - CPI+5%	10.32	10.26	10.42	10.48	10.25
GTC EB Market Plus	6.80	6.30	8.28	10.71	10.25
GTC EB Market Plus - Composite Benchmark	8.07	7.25	9.48	11.81	9.41
FTSE/JSE All Share Index (ALSI)^\wedge	5.30	6.93	8.37	11.20	9.36
FSTE/JSE Shareholder Weighted Index (SWIX)^\wedge	2.28	5.28	8.62	11.47	10.10
BEASA All Bond Index (ALBI)^\wedge	6.40	5.93	6.32	5.96	7.17
Cash (SteFi)^\wedge	5.80	5.77	5.21	4.83	5.29
MSCI World Index (R)^\wedge	25.34	12.30	14.76	19.19	10.35

*Annualised

GTC Performances are shown net of all fees

^\wedge Benchmark returns include 1.5% fees

The **GTC Conservative Fund** was ahead of its inflation adjusted target over the short term, and performing in line over longer term periods.

The **GTC Moderate Fund** lagged 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)** lagged its inflation adjusted target as real rate detraction from equity markets impacts.

The **GTC Market Plus Fund** lagged its benchmark as real rate detraction from equity markets impacts. Our manager blend has a component of protection which we feel is prudent in the current environment.

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