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Market Update

October 2018

At a glance

A global risk-off attitude resulted in global equity markets experiencing their sharpest one month decline since May 2012. The MSCI World Index was down a significant -7.3% whilst the MSCI Emerging Market Index was down -8.7% both in total return terms. Bond markets didn't escape the prevailing risk-off attitude with government bonds outside the US experiencing a broad decline in bond yields.

In spite of robust economic data, US equities declined over investor concerns relating to potential ongoing Fed interest rate increases, as well as a maturing of the economic growth cycle. The S&P 500 was down -6.8% in total return terms.

Eurozone equities declined over concerns regarding global economic growth, but an additional detracting factor was the initial rejection of the proposed Italian 2019 budget by the European Central Bank.

The UK equity market did not escape the global meltdown but managed a better than average decline bolstered by various defensive large cap counters which brought a degree of stability to a very challenging market.

In spite of a strengthening of the Yen, as global investors sought a safe haven investment, Japanese equities experienced a major sell-off particularly in economically sensitive areas of the market, with shipping being a major negative contributor.

Concerns over global economic growth and trade uncertainty had a significant impact on Emerging Market equities with risk aversion driving many investors to the side lines. Weak corporate earnings from Asian markets were a further contributing factor.

SA equities suffered a similar fate to the global equity market, being dragged down in particular by resource and industrial counters. The underlying weakness of the economy did little to encourage foreign investment.

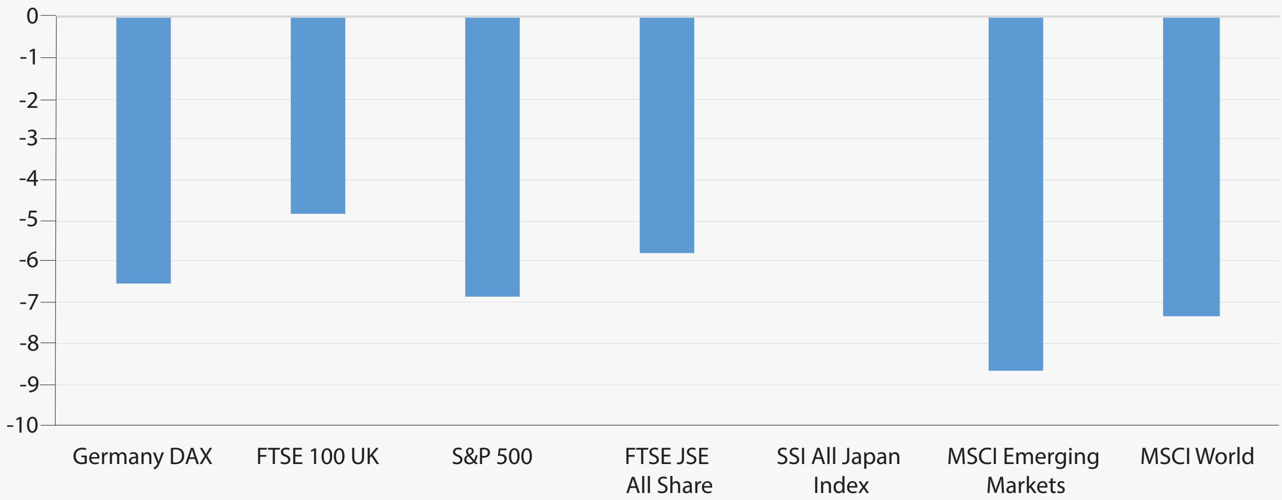
US government bond yields continued higher as local economic data continued to impress and the proposed Federal Reserve interest rate policy remained on track. For the remainder global bond yields mostly declined.

Global - Stretched IT valuations

Persistent rhetoric from the Trump administration regarding US/China trade relations, coupled with concerns over the durability of the economic cycle, resulted in a sharp sell-off of US equities. The softer earnings from tech giants Alphabet and Amazon seemed to initially confirm this, but subsequent earnings numbers suggest that strong corporate earnings momentum remains intact.

Leading economic indicators continue to confirm the robustness of the economy but do point to a more hawkish attitude being adopted by the Fed in terms of interest rates. The employment situation remains extremely tight, which is reflected in wage growth having climbed to 2.8% whilst unemployment has reached a record low of 3.7% from 3.9% in September.

Global market performance October 2018 (%) (Local currency)



Source: FactSet/GTC

In line with other global equity markets, Eurozone equities experienced a significant sell-off with the MSCI EMU Index down -6.5%. Economic data continued to point to a slowdown in the region, with Q3 GDP down to 0.2% from Q2's 0.4%. Furthermore, PMI for October came in at 52.7 from September's 54.1 and was at an almost two year low. The European Central Bank maintained its monetary policy with the target for a cessation of asset purchases still the aim for year end. Italy's proposed 2019 budget has been cause for some concern and has initially been rejected by the European Commission. It has been returned for further amendment.

The global equity sell-off left few counters unscathed and UK equities were no exception. A few large cap defensive stocks helped the FTSE 100 weather the storm perhaps slightly better than some of its peers and declined -4.9%. The uncertainties surrounding Brexit continued to impact smaller caps with the FTSE 250 down -7.0% and the FTSE Small Cap down -7.1%. The FTSE All Share returned -5.2%. Revised growth forecasts for the UK economy saw GDP for 2018 down from 1.5% to 1.3% primarily as a result of inclement weather. This forecast was predicated on a "smooth" Brexit.

Japanese equities fell sharply during October ending the month -9.4% lower. Declines were led by shipping companies together with steel, chemicals and machinery. The Bank of Japan maintained its monetary policy stance with industrial production far weaker than expected, which suggests that bad weather has had a significant impact on the economy. In fact, all recent economic data needs to be viewed in the context of the natural disasters that have affected the country in recent months.

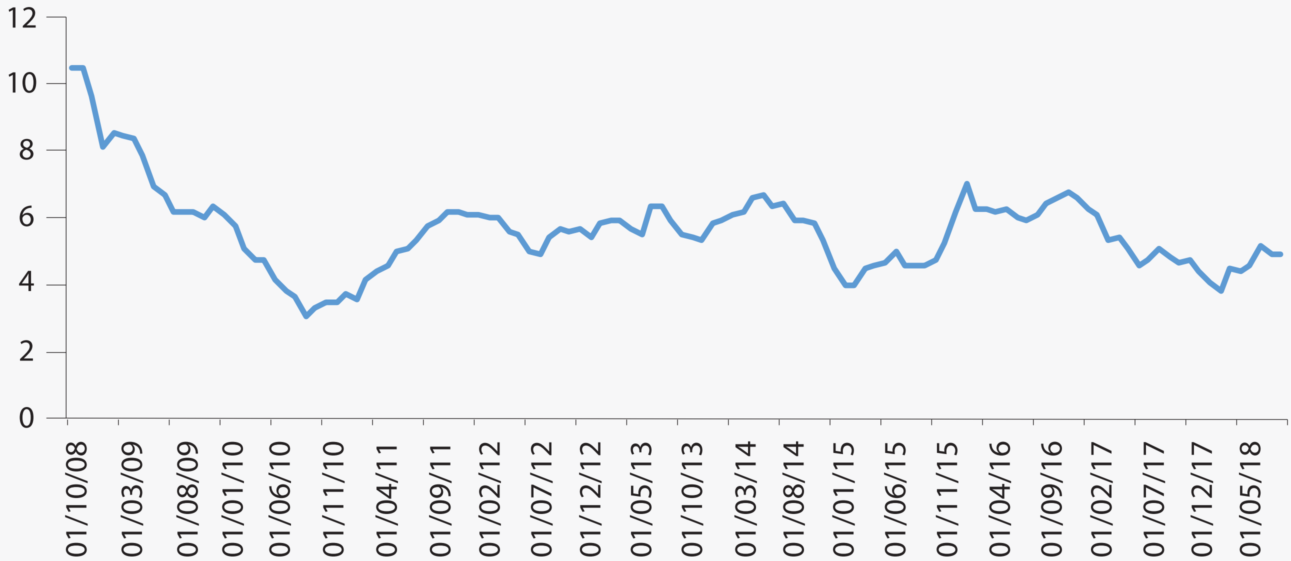
China's economy expanded by 6.5% in Q3, which was at the lowest rate since the global financial crisis. Retail sales expanded in September but industrial production declined. Regulators introduced specific measures to attempt to boost the equity and currency markets but to no avail. Both slipped significantly by month end. On the emerging markets front a perfect storm of rising US Treasury yields and a strong Dollar; tighter funding costs and slowing domestic growth; an escalating Sino-US trade war, and rising oil prices have hammered markets in recent weeks, sending MSCI's emerging market index down more than 25% from January's peak. Emerging market bonds delivered negative returns.

Domestic - Near the bottom?

In spite of government efforts to prop up market sentiment, SA equities traded in line with global markets with the FTSE/JSE All Share declining -5.76% as resource and industrial stocks came under selling pressure. Financial counters did not escape the sell-off, declining -3.19%. Dual-listed industrials, which ordinarily support returns, were a major negative contributor to industrial counters with the FTSE/JSE Industrial Index losing -8.0% of its value. The FTSE/JSE Resources Index declined -3.96%.

The wider than expected government budget deficit profile resulted in the RSA 10 year bond yield selling off 41 basis points. The JSE All Bond Index declined -1.7% while the inflation–linked bond gained 0.6%. SA cash posted a return of 0.6%. The SA Rand was a poor performer over the month, depreciating -4.2% against the US Dollar and -1.7% against the Euro. The Rand tracked sideways against Sterling.

South Africa CPI (%)



Source: FactSet/GTC

The headline CPI annual inflation rate in September 2018 was 4.9%. This rate was unchanged from August 2018. On average, prices increased by 0.5% between August 2018 and September 2018. October's inflation figure is likely to show a sharp acceleration due to the R1/L increase in Gauteng's 95 octane petrol price and R1.24/L increase in the wholesale price of diesel taking effect. The annual percentage change in the PPI for final manufactured goods was 6.2% in September 2018. From August 2018 to September 2018 the PPI for final manufactured goods increased by 0.5%.

In September South Africa's private sector credit rose by 6.26% from a year earlier, slowing from a near two-year high of 6.74% growth in the previous month, but beating market consensus of 5.5%. Meantime, expansion in the broadly defined M3 measure of money supply went up 7% after a 6.95% rise in August and above market consensus of 5.9%.

Stats SA announced that South Africa's unemployment rate increased to 27.5% at the end of the third quarter of 2018. The unemployment rate at the end of the second quarter of 2018 was 27.2%, meaning the rate had increased by 0.3%. According to the Quarterly Labour Force Survey for the third quarter, there are 16.4 million employed people and 6.2 million unemployed people between the ages of 15 and 64 years.

ABSA Manufacturing PMI in South Africa decreased to 42.4 in October from 44.55 in September 2018. Manufacturing PMI in South Africa averaged 51.08 from 1999 until 2018, reaching an all-time high of 60.87 in April of 2002 and a record low of 35.09 in April of 2009.

Mining production decreased by -9.1% year-on-year in August 2018. The largest negative contributors were: iron ore; gold and PGMs. Seasonally adjusted mining production decreased by -1.2% in August 2018 compared with July 2018. This followed month-on-month changes of -8.3% in July 2018 and 5.1% in June 2018.

Manufacturing production increased by 1.3% in August 2018 compared with August 2017. The largest positive contributions were made by the following divisions: food and beverages, basic iron and steel, non-ferrous metal products, metal products and machinery. Seasonally adjusted manufacturing production increased by 0.1% in August 2018 compared with July 2018.

Retail trade sales increased by 2.5% year-on-year in August 2018. The largest annual growth rates were recorded for retailers in: household furniture, appliances and equipment, textiles, clothing, footwear and leather goods, and pharmaceuticals and medical goods, cosmetics and toiletries.

The heightened volatility recently experienced across all equity markets is indicative of the degree of uncertainty overhanging the global economy. Research has shown that it is often in this very type of environment that investors' preference to de-risk their portfolios often comes back to haunt them. Prudence would perhaps suggest staying the course; the odds on timing the market are patently against you.

GTC fund performances - October 2018

Client Portfolios	1Year %	*3Year %	*5Year %	*7Year %	*10Year %
GTC EB Conservative	1.08	4.72	5.22	6.31	7.10
CPI+1%	6.13	6.40	6.34	6.44	6.19
GTC EB Moderate	-2.21	3.32	5.00	7.29	8.97
CPI+3%	8.13	8.40	8.34	8.45	8.20
GTC EB High Equity	-5.73	2.97	5.25	8.09	9.55
CPI+5%	10.13	10.40	10.34	10.45	10.20
GTC EB Market Plus	-5.95	2.53	5.37	9.09	10.09
Composite benchmark	-6.27	2.62	6.31	9.84	9.98
FTSE/JSE All Share Index (ALSI) ^	-9.75	0.54	4.39	8.77	11.17
FSTE/JSE Shareholder Weighted Index (SWIX) ^	-12.44	-0.52	4.26	9.11	11.53
BEASA All Bond Index (ALBI) ^	6.19	5.00	5.13	5.65	6.81
Cash (SteFi)^	5.73	5.80	5.27	4.86	5.21
MSCI World Index (R)^	4.07	7.32	12.07	16.62	10.78

*Annualised

^GTC performances are shown net of all fees.

Benchmark returns include 1.5% fees

The **GTC EB Conservative Fund** lagged its inflation adjusted target over the short term and performed in line over longer term periods.

The **GTC EB Moderate Fund** lagged its inflation adjusted target over the short and medium term periods, 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.

The **GTC EB High Equity Fund** (previously Aggressive) lagged its inflation adjusted target as real rate detraction from equity markets impacts.

The **GTC EB Market Plus Fund** lagged its benchmark as real rate detraction from equity markets impacts.

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