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Market Update - Employee Benefits

January 2019

At a glance

Global markets improved on optimism that US-China trade relations would improve and that the more dovish approach from the US Federal Reserve regarding interest rates would spur on stock markets. The MSCI World Index returned 7.8% and the MSCI Emerging Markets Index 8.8%, both in Dollar total return terms.

US equity markets forged ahead as the Federal Reserve indicated a higher degree of flexibility in terms of future interest rate decisions, and highlighted the fact that such decisions would be firmly based on current economic data.

Eurozone markets improved as concerns regarding a decline in world trade moved to the side lines. Economic data remained subdued with Italy slipping, not unexpectedly, into recession.

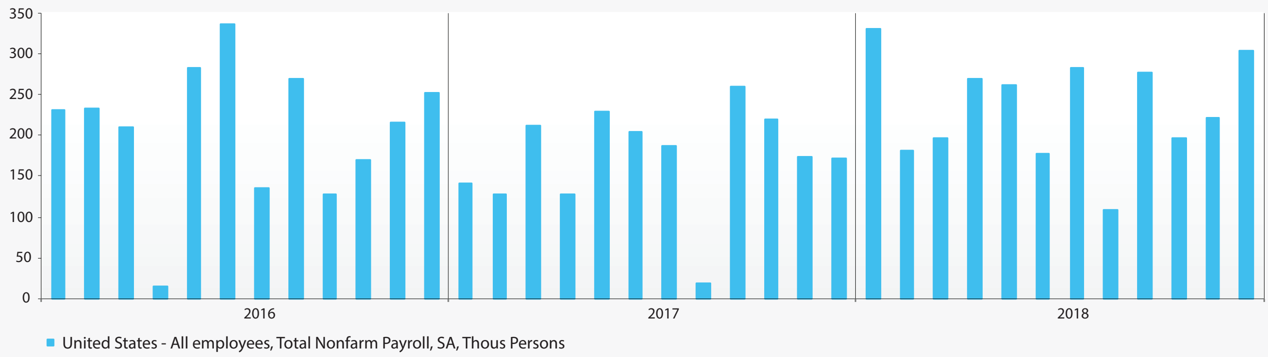
The UK equity market performed surprisingly well given the current uncertainties surrounding Brexit, but took heart from indications that a disorderly exit from the European Union would be avoided at all costs.

Following on sharp declines in the equity market in December, Japanese equities surprised on the upside - in spite of a resurgence in the Yen/Dollar exchange rate.

Emerging markets performed well in January, bolstered by a weaker Dollar as a result of the Fed's more cautious tone. A more favourable risk-on attitude prevailed. Buoyed by a sharp improvement in global equity markets, the local FTSE/JSE All Share followed suit, returning a positive 2.8% for the month - helped along in no small measure by the improvement in the Financials Index.

Global - A Dovish Fed?

US non-farm payrolls



Source: FactSet/GTC

Following sharp falls in December, US equities forged ahead in January, spurred on by developments at the Federal Reserve, as well as an improving outlook for global trade. While the Fed left interest rates unchanged, it indicated a far more flexible approach going forward which would be based squarely on economic momentum. This was a radical departure from the previous proposal that interest rates would need to be gradually increased. This unexpected change from previous Fed policy brought cheer to global equity markets. An additional catalyst was provided by President Trump, who indicated that he would meet with China's President Xi to work towards a resolution regarding the tariffs dispute.

Economic data remained positive but suggested some weaker momentum with inflation remaining muted. However, the labour market surprised on the upside with 304,000 new jobs being added against expectations of 165,000. Earnings for Q4 continued to meet expectations, but there were words of caution from some blue-chip companies that earnings going forward could be subject to trade headwinds. Caterpillar, Apple and Amazon all expressed concern. All sectors of the S&P 500 improved, with energy and industrial stocks being the best performers.

In line with most global markets, Eurozone equities rose significantly in January, countering the poor performance in December 2018. The MSCI EMU Index returned a healthy 6.3%.

Economic data remains tepid with GDP limping in at 0.2% quarter-on-quarter for Q4 2018, the same as Q3. PMI declined to 50.7 from the previous 51.1 and was the lowest in some five years, suggesting a continued slowdown in economic growth. In spite of this, unemployment remains at a ten-year low of 7.9%.

The European Central Bank indicated that the risks previously surrounding Eurozone growth had been mitigated and that interest rate policy was to remain unchanged at least until the summer of 2019.

Considering the extent of the uncertainties surrounding the Brexit situation, UK equities performed well over the month, with the FTSE All-Share returning 4.2%. Sterling strength, largely on the hope that the UK would avoid a no-deal Brexit, provided an additional headwind which impacted on the more internationally focused FTSE 100, which returned 3.6%. Easing of no deal fears also impacted UK-centric areas of the market, with the FTSE 250 rallying a spectacular 7.6%. Retail sales over the Christmas period were better than expected which cheered investors.

Japanese equities experienced sharp declines in December but the market rallied and returned 4.9% for January. The Yen was extremely volatile at the beginning of the month, but the currency settled down, to finish the month up just 0.7% versus the Dollar. Corporate results are in line with expectations, but consensus suggests that going forward, such results may tend to the downside.

Chinese markets remained volatile reflecting the potential fall-out from President Trump's proposed tariff increases which was evident in the latest economic data. Exports declined 4.4% year-on-year in December while imports were also down 7.6%. Q4 GDP declined to 6.4% year-on-year which resulted in GDP for the year easing to 6.6%, the lowest since 1990. The People's Bank of China announced a further cut to the bank's reserve requirement ratios in order to promote further lending and hence economic growth.

Domestic - 2019 - A snail paced recovery

The local equity market moved in line with global markets over the month, with the FTSE/JSE All Share improving 2.8% largely driven by an improvement in financial counters.

The FTSE/JSE Financial Index improved significantly by 6.0% following the previous month's weak showing of just 0.6%. Another sector to improve was resources, with the FTSE/JSE Resources Index up 3.3%. The main drivers in this instance were gold and platinum counters, with the gold price up 3.0% and the platinum price up 3.3%.

The platinum price increment is somewhat of a misnomer as it is the palladium price which is increasing sharply. Palladium, a by-product of platinum, is used as a catalytic agent in petrol engines. The FTSE/JSE Industrial sector continued to limp along returning just 0.9%. Listed property received considerable interest with the index leaping 9.2% albeit from a low base.

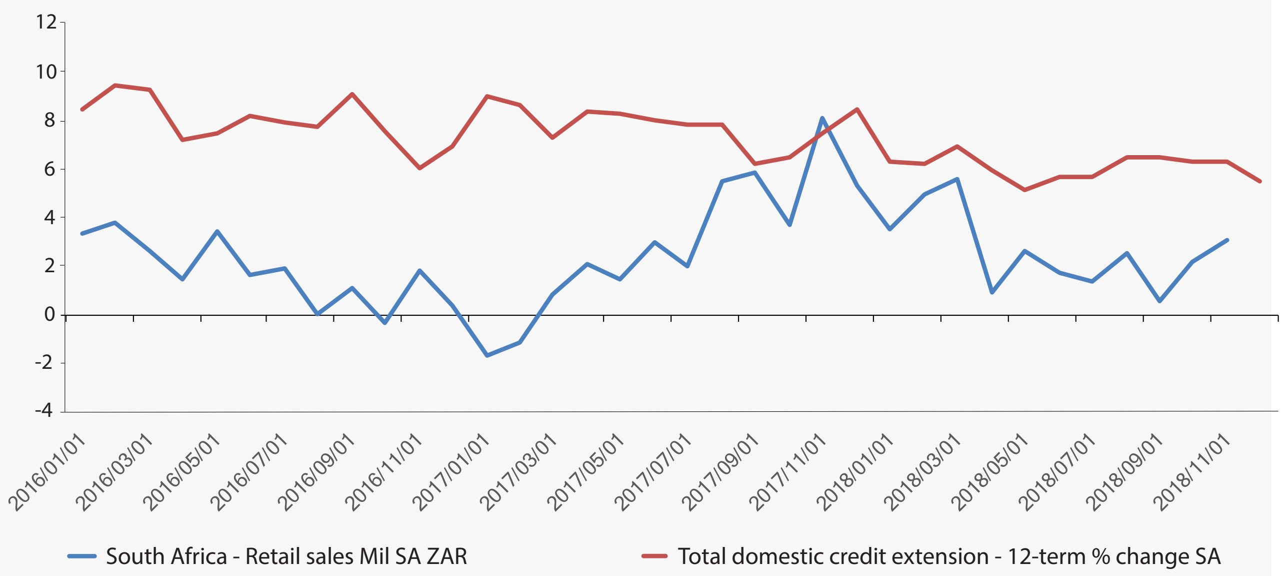
The SA Government 10 year bond yield sold off nearly 10 basis points following SARB's interest rate meeting. The meeting decided to keep rates on hold but a decidedly more dovish approach to future interest rate rises was apparent. The JSE ASSA All Bond Index returned 2.9% while Inflation Linked Bonds gained 1.6%. Cash returned 0.6%. The Rand was the best performing EM currency appreciating 7.9% against the Euro and 5.5% against Sterling.

Manufacturing production increased by 1.6% in November 2018 compared with November 2017. A noteworthy negative contribution was reported by the basic iron and steel, non-ferrous metal products, metal products and machinery division. Seasonally adjusted manufacturing production increased by 0.7% in November 2018, compared with October 2018.

Mining production decreased by 5.6% year-on-year in November 2018. The largest negative contributors were: iron ore, gold, diamonds and 'other' non-metallic minerals. Seasonally adjusted mining production decreased by 5.8% in November 2018, compared with October 2018. This followed month-on-month changes of 3% in October 2018 and 0.7% in September 2018. Most of South Africa's gold mines are unprofitable at current prices.

Motor Industry domestic sales ended 2018 on a weak note, with aggregate industry new vehicle sales for December 2018 recording a fall of 1.9% compared to the total new vehicle sales during the corresponding month of December 2017. In contrast, export sales had recorded a massive improvement in December 2018 and reflected a remarkable gain of 56.3%, compared to the vehicles exported during December 2017. The strong December industry export performance contributed to a record annual export sales figure for the industry.

SA Retail vs Domestic Credit



Source: FactSet/GTC

South African retail sales rose 3.1% year-on-year in November after increasing at a revised year-on-year rate of 2.1% in October. On a month-on-month basis, sales rose 3.3% in November. Sales were up 2% in the three months to the end of November, compared with the same period last year.

The headline CPI annual inflation rate in December 2018 was 4.5%. This rate was 0.75% lower than the 5.2% from November 2018. On average, prices decreased by 0.2% between November 2018 and December 2018. Ahead of the announcement, analysts had estimated that inflation would range between 4.3% and 4.5% on the back of a substantial decline in fuel costs. Stats SA also announced that average annual consumer price inflation for the whole of 2018 was 4.7%, which was 0.6% lower than the corresponding average of 5.3% in 2017.

The World Bank downgraded SA's real GDP growth for 2019 to 1.3% from the 1.8% projected in June 2018, citing constraints on domestic demand and limited government spending. The bank warned that high unemployment and slow growth in household credit extension will constrain domestic demand in 2019. Further, it expects GDP to increase by 1.7% in 2020 and 1.8% in 2021.

The year has started off on a positive note with global markets reacting favourably to the Fed's changed thinking in terms of monetary policy and has been heartened by comments emanating from President Trump with regards to the imposition of punitive tariffs on Chinese goods. It also presents, hopefully, a new dawn for South Africa, both politically and economically.

What the future holds is anyone's guess but it does seem that our economy, and as a consequence our stock market, is set for better times. Time will surely tell.

GTC fund performances - January 2019

Client Portfolios	1Year %	*3Year %	*5Year %	*7Year %	*10Year %
GTC EB Conservative	2.33	5.34	5.24	6.16	6.94
CPI+1%	5.74	6.36	6.33	6.39	6.36
GTC EB Moderate	-0.56	4.73	4.90	7.07	8.75
CPI+3%	7.74	8.36	8.33	8.39	8.36
GTC EB High Equity	-3.86	4.60	5.11	7.81	9.40
CPI+5%	9.75	10.36	10.33	10.39	10.36
GTC EB Market Plus	-4.53	4.65	5.06	8.85	10.34
Composite benchmark	-4.00	4.86	6.36	9.63	10.41
FTSE/JSE All Share Index (ALSI) ^	-7.46	4.79	5.28	8.62	11.75
FTSE/JSE Shareholder Weighted Index (SWIX) ^	-9.69	4.00	5.70	9.15	12.24
BEASSA All Bond Index (ALBI) ^	7.18	8.83	7.44	6.34	6.65
Cash (SteFi)^	5.72	5.86	5.37	4.91	5.09
MSCI World Index (R)^	2.90	2.07	6.87	14.38	10.82

*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 longer term periods. Equity markets remain the key driver of performance.

The **GTC Moderate Fund** was ahead of its inflation adjusted target over longer term periods. Equity markets remain the key driver of performance.

The **GTC High Equity Fund** (previously Aggressive) lagged its inflation adjusted target as equity markets detracted over the short and medium term.

The **GTC Market Plus Fund** lagged its inflation adjusted target as equity markets detracted over the short and medium term.

Our manager blend has a component of protection which we feel is prudent in the current environment.

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