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Market Update

July 2019

Global outlook

Global markets started the month on a positive note as the US and China agreed to resume trade talks along with no new tariffs increases and for the US to ease previously imposed restrictions on Huawei. This was short lived as the US proposed increased tariffs towards the middle of the month, further exasperating already elevated levels of geopolitical tension amid deteriorating global trade.

While central banks have adopted a dovish approach to interest rates in order to stimulate growth, the effects of the global risk off environment which ensued, could not be completely mitigated.

July closed with markets sprinting in favour of safe-havens, pushing Gold up further to trade at near six year highs. Indicative of the risk off environment, the MSCI Developed World Equity Index registered a return of 0.5%, outperforming the MSCI Emerging Market Equity Index which delivered a return of -1.2%, both in total Dollar return terms.

US

The FED cut rates for the first time in a decade in an effort to stimulate US economic growth amid the global economic slowdown. While US non-farm payroll saw job numbers increase, wages were not rising fast enough to trigger much inflation. The subdued demand from the US's major trading partners has pulled its manufacturing sectors into a technical recession (two consecutive quarters of decline).

Eurozone

The Eurozone largest economy (Germany) experienced one of its most significant contraction in its manufacturing sector since the 2009 financial crisis. Despite stumbling from the ramification of the global economic slowdown along with uncertainty arising from the US-Europe trade conflict, the ECB (European Central Bank) decided to keep interest rates unchanged for now. Their current view is to keep interest rates unchanged or at suppressed rates until the first half of 2020.

UK

July marked the election of Boris Johnson as the new prime minister of the UK. The mounting fears of a possible no-deal Brexit scenario has seen the pound fall over recent weeks. The pound rebounded on the back of the new prime minister's optimism over striking a Brexit deal within the next 100 days which brought much needed stability to the currency. The FTSE All-Share delivered 1.9%.

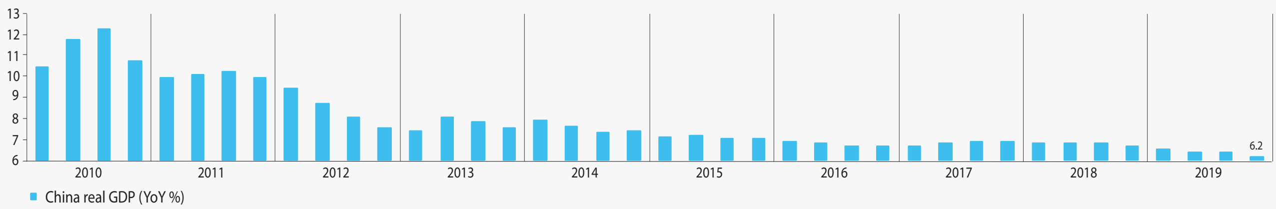
Asia

Asian markets were certainly not spared with the impact of the global slowdown becoming increasingly more evident as seen by weak economic data coming out of Japan and China's manufacturing sector.

Notwithstanding Japan's surprising economic growth of 1.8% in Q2 2019, it continues to face immense economic challenges with a potential recession looming as exports dwindle. The Bank of Japan has signalled that it will enter into an aggressive monetary stimulus phase should events abroad cause further economic deterioration.

China's economy slowed to 6.2% in Q2 2019, its weakest level in 27 years as the trade war took its toll. Further weakening China's outlook, Hong Kong's economy continues to stagnate with no relief in sight from the strain of the unrelenting anti-government protest.

China - GDP growth



Source: FactSet/GTC

SA

The FTSE/JSE Shareholder weighted index was weighed down by the global sell-off returning -2.2% in total return terms for the month. Performance was dragged down by Financials (-7.0%) and Resources (-5.9%) stemming from a market correction following the US Fed's monetary outlook and subdued global demand.

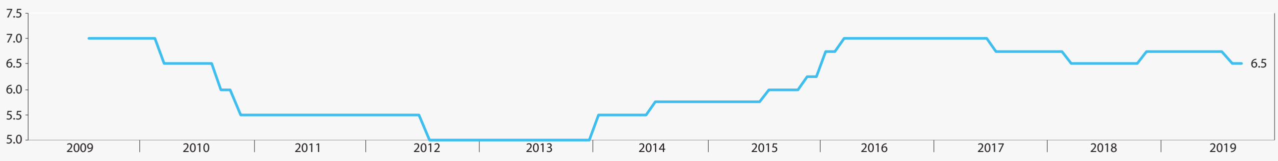
Data from Statistics South Africa showed South Africa's headline consumer inflation unchanged at 4.5% year on year in June from the previous month. Producer Price Inflation for final manufactured goods increased 0.4% to 5.8% in June 2019.

The ABSA Purchasing Manager Index (PMI) rose significantly from 46.2 to 52.1 points signalling expansion in SA's Manufacturing production sector. While the outlook is pleasing, caution is warranted given the dire state of SA's power utility provider, Eskom. Eskom has received a further cash injection of some R59 billion to be used over the next two years in order to meet its debt obligations.

Unemployment in SA has further pushed out to a sixteen year high of 29%, speaking directly to one of SA largest hurdles in achieving economic growth.

In line with the rest of emerging markets, SA's growth outlook is lower than previously projected according to the recent World Economic Outlook report issued by the International Monetary Fund which has revised SA growth in 2019 down to 0.7% for 2019 from 1.2%.

South Africa - Repo rate (%)



Source: FactSet/GTC

In its efforts to stimulate SA economy the South African Reserve Bank (SARB) cut interest rates by 25bps. The message from SARB was clear, that for the rate cut to have a meaningful impact it needs to be complimented by structural reforms that deal with issues underpinning SA's ailing economy.

Market index - July 2019 (%)	1M	3M	YTD	1YR	3YR	5YR	7YR	10YR
Local Equity (SWIX)	-2.21	-4.85	6.63	-1.14	2.85	4.64	10.12	12.26
Local Listed Property	-1.20	0.09	4.77	0.08	-3.70	4.99	6.69	12.02
Local Money Market	0.59	1.81	3.63	7.34	7.45	7.08	6.58	6.56
Local Bonds	-0.74	2.16	6.85	8.06	8.79	8.21	7.09	8.80
Global Developed Equity in USD	0.50	0.94	17.99	3.62	10.42	7.05	10.48	9.87
Global Emerging Equity in USD	-1.22	-2.67	9.50	-2.18	8.42	1.84	3.68	4.56
Global Bonds in USD	-0.47	3.60	4.88	5.42	0.67	0.94	0.69	1.98
OIl in USD	1.01	10.97	11.12	15.94	1.06	1.53	-2.29	3.47
Rand vs. USD	-0.51	1.15	1.49	-7.58	-0.74	-5.44	-7.50	-5.75

Above indices returns are gross of fees.

Contact us

Head - Investment Analytics
Clive Eggers
T +27 (0) 21 412-1062
E ceggers@gtc.co.za

Analyst - Investment Analytics
Samir Narotam
T +27 (0) 10 597-6826
E snarotam@gtc.co.za

Head - Healthcare
Jillian Larkan
T +27 (0) 21 412-1062
E jlarkan@gtc.co.za

Head - Employee Benefits Administration
Nadira Sarang
T +27 (0) 21 713-8500
E nsarang@gtc.co.za

Private Client Wealth Management
Jenny Williams
T +27 (0) 10 597-6840
E jwilliams@gtc.co.za

Employee Benefits Consulting
Toy Otto
T +27 (0) 10 597-6861
E totto@gtc.co.za

Managing Director - Risk Solutions
Roy Wright
T +27 (0) 21 286-0037
E rwright@gtc.co.za

Group Chief Operating Officer
Farhadh Dildar
T +27 (0) 10 597-6830
E fdildar@gtc.co.za

Group Chief Executive Officer
Gary Mockler
T +27 (0) 10 597-6831
E gmockler@gtc.co.za

Head - Finance
Andrea Diamond
T +27 (0) 10 597-6877
E adiamond@gtc.co.za

Compliance Officer
Dale Nussey
T +27 (0) 10 597-6828
E dnussey@gtc.co.za

Director - Asset Management
Manty Seligman
T +27 (0) 10 597-6800
E mseligman@gtc.co.za

formerly Grant Thornton Capital

a GTC, The Wanderers Office Park,
52 Corlett Drive, Illovo, 2196
p P O Box 55118, Illovo, 2116

t +27 (0) 10 597 6800
e info@gtc.co.za
w www.gtc.co.za

GTC (Pty) Ltd.
reg. no. 1996/001488/07
directors: G.K. Mockler, F Dildar

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