Market update
Second quarter (October-December) 2016

US election, the biggest impact this quarter

Although the financial year started off well this quarter, the surprise election of American businessman Donald Trump to the White House shocked many.

The effect on global share markets has also been a bit surprising. In a volatile week around the US election (8 Nov.) the Australian Stock Exchange (ASX) actually posted its best week since July, as fear subsided into optimism following Trump's victory speech.

In fact, when US share markets opened the day after the election, markets rallied, which flowed through to Australian shares the next day. The ASX posted its best day since 2011, jumping 3.3 per cent, and ending up 3.7 per cent higher for the week. Indeed, Australian shares performed extraordinarily well for the first six months of this financial year, posting a return of 10.4% for the financial year to date (to 31 December 2016), broadly in line with international shares, which returned 9.7% over the same period (in local currencies).

Markets have been supported by the US Republicans' 'clean sweep' – control in the House, Senate and Presidency – and the potential to therefore avoid some of the gridlock that dominated President Obama's eight years in power. To date, share markets have been mostly focused on the good news from a Trump presidency and have so far focused little on the potential adverse outcomes.

The biggest loser

The biggest loser from the Trump presidency thus far has been bonds (or fixed interest). This is because markets expect higher inflation and higher interest rates in the US on the horizon. The global fixed interest benchmark has returned –1.4% financial year to date and Australian fixed interest has returned –2.0% over the same period.

This has also negatively affected 'interest rate-sensitive' sectors, such as listed property (where our Property option is invested). Generally, the sectors within the share market that performed best in recent years (as interest rates fell) have been the poorest performing over the 2016/17 financial year to date, as markets expect interest rates to rise.

Looking ahead

It is still very early days to predict what the long-term effect will be on our share market. Trump was inaugurated as President on 20 January 2017 and has been making a series of key government appointments in recent weeks, which are being confirmed by the US Senate. As he appoints his key cabinet positions, markets are beginning to gain a better perspective on which of his campaign promises are likely to be followed through. For instance, given his cabinet appointments in the Treasury and Commerce area, markets are expecting tight regulations in the banking sector to be wound back. As a result, US bank stocks have risen sharply since the election.

> *Australian shares performed extraordinarily well for the first six months of this financial year, posting a return of 10.4% for the financial year to date (to 31 December 2016)*

Trump's commitment to rebuild US infrastructure (and the Republicans' control of the House and Senate) could stimulate growth in the short and medium term. However, this could spur some inflation in the US, which would mean the US Federal Reserve is more likely to increase US interest rates.

Bond markets are forward-looking, so have already begun to price in some of these potentially higher interest rates in the future and therefore we have seen negative returns from fixed interest in recent months.

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Immigration and trade agreement policy changes may also have an impact but it's hard to tell at this early stage just how big an impact, especially for Australia. Potential geopolitical risk factors (such as rising tensions with China, rising pressure on North Korea and Iran surrounding nuclear weapons, etc) are probably the biggest causes of investment uncertainty coming from a Trump presidency.

It is unchartered territory and although big changes generally mean more volatility, one of our main tools to manage through this volatility is diversification. While we can't predict the future, we can ensure that our investment portfolios are best placed to take advantage of all market factors and continue to grow member account balances over the long term. Now more than ever is a good time for well-diversified portfolios.

Latest returns

This table shows how your investment has performed for the quarter and financial year to date. To discuss market conditions or your own financial situation, please call one of our financial advisers on **1300 130 780**.

Investment option	Super rates		Pension rates	
	2nd quarter (1 Oct–31 Dec 2016)	FYTD (1 Jul–31 Dec 2016)	2nd quarter (1 Oct–31 Dec 2016)	FYTD (1 Jul–31 Dec 2016)
MySuper Balanced*	2.59%	5.51%	2.88%	6.16%
High Growth	3.19%	6.79%	3.56%	7.60%
Targeted Return	0.23%	2.63%	0.32%	3.04%
Moderate	1.50%	3.68%	1.67%	4.12%
Conservative	0.94%	2.49%	1.05%	2.81%
Australian Shares	3.73%	7.92%	4.11%	8.80%
International Shares	5.68%	8.36%	6.28%	9.30%
Indexed Shares	5.93%	9.49%	6.38%	10.38%
Property	–0.72%	–2.46%	–0.81%	–2.77%
Cash	0.35%	0.77%	0.44%	0.93%

*For LUCRF Pensions, this investment option is called Balanced. Past performance is not a reliable indicator of future investment returns.

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