Market *update*

Third quarter (January-March) 2017

The post-US election surge continues (for now)

Returns for the financial year continued to surge this quarter, following the surprise election of Donald Trump last quarter. In fact, since the US election (on 8 November 2016) to 31 March 2017, the US share market has returned an astonishing 11.4% in less than five months. Australian shares have fared even better, returning 13.3% over the same period.

Outside of the US, there are now signs that economies are recovering, particularly in Europe, Japan and China. The long-term challenges for China remain, including high levels of public debt, an ageing population and an economy that must transition from industrial-led to consumer-led growth. Despite this, China has taken great steps to stimulate its economy in the short term, with an increase in fixed asset investment (such as roads, rail and bridges). This has led to increasing commodity prices, particularly for industrial metals.

Closer to home

As a result, the Australian share market has been a key beneficiary of the recovery in China and the global economic recovery more broadly, even though the Australian economy is struggling to keep up with the global economic recovery.

> *Despite the strength in economies around the world at a headline level, the recovery still remains uneven, as seen by uneven income growth, leading to rising inequality.*

The Australian economy is showing few areas of strength, other than Sydney and Melbourne house prices, which continues to create a conundrum for the Reserve Bank of Australia (RBA). The RBA may like to stimulate the Australian economy by dropping interest rates, but are concerned about throwing further 'fuel on the fire' of house prices.

Elsewhere, the main asset classes left behind in the continued recovery in share prices continue to be 'interest-rate sensitive' shares, such as Real Estate Investment Trusts (REITs). These continued to underperform in Australia in particular.

Looking ahead

The strength in share markets since November 2016 is pleasing for members, but we should not get too carried away. Because share markets are forward-looking, strong returns in 2016/17 are essentially 'bringing forward' returns from the future to today. As a result, it is unlikely that returns this strong can last for too much longer and we are watching share markets closer than ever.

The US economy is performing quite strongly and the US Federal Reserve increased interest rates in March and it is likely that we will see further interest rate increases in 2017 and 2018 as the Federal Reserve attempts to cool the economy. This is likely to provide an interesting tension against the Trump Administration's attempts to stimulate the economy.

Uneven growth

Despite the strength in economies around the world at a headline level, the recovery still remains uneven, as seen by uneven income growth, leading to rising inequality. In this environment, populism and nationalism (often accompanied by anti-immigration policies) continue to rise in popularity, as seen by the election of Donald Trump in November and the Brexit result in June last year. This sentiment could sweep across Europe in 2017. There are a number of elections in Europe this year, where far-right candidates are expected to poll well, but markets have so far taken these in their stride.

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What this means for you

As was the case last quarter, the unstable nature of geopolitics is likely to cause further instability in the months to come. In particular, the Trump Administration is likely to remain unpredictable and markets will be watching the way it reacts to any flare-ups in places such as Syria and North Korea, along with its relations with Russia and China. Despite this instability, LUCRF Super is well-placed to manage the current investment landscape.

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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	
	3rd quarter (1 Jan–31 Mar 2017)	FYTD (1 Jul 2016–31 Mar 2017)	3rd quarter (1 Jan–31 Mar 2017)	FYTD (1 Jul 2016–31 Mar 2017)
MySuper Balanced*	2.77%	8.42%	3.12%	9.48%
High Growth	3.15%	10.15%	3.59%	11.46%
Targeted Return	2.41%	5.11%	2.76%	5.89%
Moderate	2.11%	5.87%	2.40%	6.64%
Conservative	1.62%	4.15%	1.86%	4.72%
Australian Shares	4.23%	12.49%	4.72%	13.93%
International Shares	2.87%	11.48%	3.20%	12.80%
Indexed Shares	2.63%	12.36%	2.85%	13.53%
Property	–0.01%	–2.47%	–0.05%	–2.82%
Cash	0.41%	1.19%	0.49%	1.43%

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

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