

Market update

Fourth quarter (April-June) 2017

Another strong quarter to end the financial year

The last quarter of the financial year saw solid returns in most investment options except Australian shares and property. The MySuper Balanced option (where most members have their super invested) returned 1.54% for the quarter, delivering a double-digit return of 10.10% for the 2016/17 financial year.

The Australian share market fell by 1.6% for the quarter. In comparison, global shares rose by 2.8% (in local currencies). The underperformance of Australian shares was concentrated mostly in May. This was due largely to the Federal Budget, which introduced a new bank levy on the four big banks and Macquarie Bank. Smaller banks were also hit by a credit rating downgrade during May. Combined with fears around the housing market and tighter lending standards, the banking sector performed poorly during the June quarter (-7.0%). This was a large drag on the broader Australian share market, given the dominance of banks in our domestic share market.

Beyond Aussie soil

Globally, share prices were generally stronger, as economic data out of Europe, China and Japan continued to improve. The US economy continued to perform well too. Even though the US Federal Reserve raised interest rates in June (for the third time in 2017), the increase was well flagged, and share markets largely took it in their stride. The European Central Bank, Bank of England and Bank of Canada all indicated in June that they may begin to increase interest rates soon, which markets were not expecting, so bond yields increased (which meant bond prices fell) that month.

As such, it was another ordinary quarter for 'interest-rate sensitive' shares, such as Real Estate Investment Trusts (REITs) and listed infrastructure shares. Australian REITs (A-REITs) were also hampered by poor news from the retail sector. In particular, disappointing sales figures (for both retailers and landlords) and fears about the imminent arrival of Amazon, pose a threat for traditional 'bricks and mortar' retail shopping.

It was another quarter of political volatility. Share markets (particularly in Europe) were buoyed by the French Presidential election in May and the victory of Emmanuel Macron over the nationalist challenger Marine Le Pen. These victories gave rise to growing optimism that Macron and German Chancellor Angela Merkel are likely to pursue policies aimed at greater European cooperation. However, this was disrupted somewhat by the surprise hung parliament in the UK election in June. Although Theresa May's Conservative party was eventually able to form government with the Northern Ireland Democratic Unionist Party, the uncertainty caused markets in the UK and Europe to subsequently underperform.

Looking ahead

The returns for the 2016/17 financial year were most pleasing, if not somewhat surprising, as evidenced by the MySuper Balanced option return of 10.10%. The strength of sentiment over the last 12 months, particularly since Donald Trump was elected in November 2016, has taken many market participants by surprise. We would expect the "Trump trade" (as it has now become known) to weaken if his presidency proves ineffective. Many developed economies also face other headwinds, such as the removal of unprecedented stimulus by central banks.

Now more than ever, it is prudent for members to maintain a well-diversified portfolio for the challenges ahead.

Another strong quarter to end the financial year (cont...)

All of this is well known by markets and does not necessarily mean that markets are about to fall. However, members should not get used to double-digit returns like we saw in the 2016/17 financial year. Bumper returns essentially 'steal' returns from the future and bring them forward to today.

Although we would expect lower returns in the years to come, these lower returns never come in a straight line. There is the possibility of a very low, or even negative, year of returns from some investment options and a very high return from other investment options in the same year (as seen in 2016/17). Now more than ever, it is prudent for members to maintain a well-diversified portfolio for the challenges ahead.

Latest returns

This table shows how your investment has performed for the quarter and 2016/17 financial year. To discuss market conditions or your own financial situation, please call one of our financial advisers on **1300 130 780**.

Investment options	Super rates		Pension rates	
	4th Quarter (1 Apr-30 Jun 2017)	2016/17	4th Quarter (1 Apr-30 Jun 2017)	2016/17
Pre-mixed				
MySuper Balanced*	1.54%	10.10%	1.71%	11.35%
High Growth	1.76%	12.10%	1.94%	13.63%
Targeted Return	0.92%	6.08%	0.97%	6.93%
Moderate	1.34%	7.29%	1.50%	8.24%
Conservative	1.08%	5.28%	1.22%	6.00%
Asset class				
Australian Shares	-1.58%	10.72%	-1.67%	12.02%
International Shares	4.13%	16.08%	4.42%	17.79%
Indexed Shares	1.05%	13.54%	1.11%	14.80%
Property	-2.96%	-5.36%	-3.07%	-5.81%
Cash	0.43%	1.63%	0.52%	1.95%

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

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