Market update

Second quarter (Oct-Dec) 2017

A strong year for investors

While political volatility continues, market volatility remains subdued.

In 2017, global economic growth continued to accelerate and inflation remained low, meaning interest rates also remained low in most countries around the world. According to the International Monetary Fund (IMF), the global economy grew by 3.7% in 2017, its fastest pace of growth in six years. The IMF's forecast for 2018 is similar, with a global economic growth forecast of 3.9%.

The strength of the Australian dollar has surprised many.

How did the share markets perform?

Global shares performed extremely well, with international shares returning 5.3% for the December quarter (i.e. 1 October to 31 December 2017), 9.5% for the 2017/18 financial year to date, and 18.7% (in local currency terms) for the 2017 calendar year. The strength of the Australian dollar (AUD) has surprised many, with the AUD rising to finish 2017 at US$0.78. That meant returns on global shares for unhedged investors were lower for 2017, with a return of 13.4%.

Emerging market shares have performed even better, returning 7.8% for the quarter, and 27.1% for the calendar year (both expressed in unhedged Australian dollars terms).

Australian shares also did well for the quarter, with a return of 7.7%. However, Australian shares lagged behind international shares for the calendar year with a return of 11.9%. In Australia, profit growth hasn't been strong, especially when compared to that of US companies. Our all-important banks sector had a particularly tough year, with a return of just 2.1%, driven largely by continued scandals and regulatory responses to those scandals.

What about other asset classes?

The returns for other asset classes were reasonably strong for the December quarter, although generally not as strong as shares. Government bonds returned a small positive quarter in line with their low current yields, while the return on corporate bonds was higher.

Listed property had a difficult year in 2017, underperforming shares both in Australia and globally. However, Australian listed property had a bumper December quarter. Our A-REITs (Australian Real Estate Investment Trust) Index returned 7.8% for the quarter, due mainly to Westfield agreeing to a takeover by France's Unibail-Rodamco on 13 December 2017. Westfield shares jumped by around 15% on the day of the announcement. The takeover affects a large stock in the Australian A-REITs Index, but only affects its offshore shopping centres.

If interest rates rise quickly in 2018, then it's likely that shares will begin to pull back.

Looking ahead

The strong performance of shares and low market volatility continues despite the steady spate of instability in the global political environment. Even as the Trump presidency becomes more bizarre (particularly Trump's relations with North Korea), the markets remain relatively unaffected. The key watch points which could affect markets in 2018 are Robert Mueller's investigation into Russian meddling in the 2016 US election, and US mid-term elections in November 2018. The risk of populist policies from the Trump administration in response to these pressures is also something to look out for.

It's not surprising that share returns have been very strong in 2017, as the global economic recovery is now broad-based and we move into a stage of the economic cycle where returns can often be quite strong.

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A strong year for investors...

Global economic forecasts are also strong for 2018, but that doesn't necessarily mean returns from shares will follow suit. Global shares are 'forward-looking', so it's very likely that returns from shares will dip before economic growth dips.

Global share markets are watching a number of issues closely, such as whether inflation will begin to emerge in 2018, particularly in the US which is generally further along in its economic expansion than most countries. Markets will then watch for how the US Federal Reserve responds, most likely with continued higher interest rates, as well as central banks around the world including the Reserve Bank of Australia.

If interest rates rise quickly in 2018, then it's likely that shares will begin to pull back, even if economic growth remains strong.

There are also a number of geopolitical risks that haven't affected markets much – if at all – in 2017, but could in 2018. As such, it's important now more than ever to keep a well-diversified portfolio. Call one of our fully qualified financial advisers on **1300 130 780** to help you decide the investment option that's right for you.

Latest returns

This table shows how your investment has performed for the quarter and 2017/18 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	
	(01/07/2017 to 31/12/2017)	(01/10/2017 to 31/12/2017)	(01/07/2017 to 31/12/2017)	(01/10/2017 to 31/12/2017)
Pre-mixed				
MySuper Balanced*	5.98%	4.19%	6.64%	4.58%
High Growth	7.41%	5.16%	8.22%	5.65%
Targeted Return	3.11%	2.57%	3.53%	2.73%
Moderate	4.46%	3.13%	5.00%	3.43%
Conservative	3.36%	2.40%	3.78%	2.64%
Asset class				
Australian Shares	9.05%	8.05%	9.97%	8.79%
International Shares	7.44%	4.72%	8.14%	5.14%
Indexed Shares	8.27%	6.36%	8.94%	6.84%
Property	8.65%	6.92%	9.69%	7.71%
Cash	0.91%	0.48%	1.08%	0.56%

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

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