

Market update

Third quarter (Jan-Mar) 2018

Keep calm and carry on...

It's been an interesting time for financial markets.

It's hard to turn on the television or pick up a newspaper these days and not see the headlines about President Trump and his latest economic policies, US corporate tax cuts, wobbles in the global share markets, impending trade wars between China and the US and the potential interest rate hikes here in Australia.

The driving force behind the recent economic volatility has been the introduction of economic policies that restrict imports and protect domestic industries.

March saw President Trump introduce steel and aluminium tariffs, which targeted China in particular. In retaliation, China has placed tariffs on US soybeans, cars and airplanes. These policies are having a dramatic effect on investment markets so far. Time will tell how this plays out. Similar policies on the rise in Europe are causing some uncertainty around the future of the European Union.

The UK economy is starting to see the effects of Brexit, with the UK projected to remain at a modest 1.5% growth in gross domestic product (GDP) for 2018. The GDP is expected to only slightly increase in 2019 according to the PwC Economic Outlook. Europe has also seen political change, including the recent elections in Italy, which is affecting investment markets.

Back in the US, the recent corporate tax cuts have economists concerned that this will lead to an overheating economy. As a result, the Federal Reserve has increased interest rates, which is affecting bond rates and global economies.

How have the markets performed?

2018 is shaping up to be a bumpy time for share markets, which have seen significant movements for the March quarter. We started the year off strongly in international shares and there were significant returns in January, before a sharp share market decline in early February 2018. This was mostly as a result of strong economic data regarding the jump in US average hourly earnings which led to concerns about inflation and had a domino effect on the rest of the world markets. US shares fell by 8.5% in the first eight days of February. They had recovered most of their losses by mid-March, before experiencing some further hiccups in late-March as fears of a trade war between the US and China escalated. Overall, we've seen returns of -0.8% for US shares and -2.2% for global shares (in local currencies) for the March quarter.

Back here in Australia, the markets followed the international trends. The Australian Stock Exchange (S&P/ASX 300) saw an overall loss of -3.8% for the March quarter, with Australian shares losing -4.5% from their peak in late January to mid February, only to pick up again towards the end of February and early March.

It's quite normal for share markets to experience a -5% to -15% correction. The volatility experienced so far this year has caused some nervousness for investors. However, global shares are still sitting on a financial year-to-date return of 7.1% (in local currencies), and the Australian share market returned 4.5% for the same period.

In other markets, emerging economies have seen a slight positive return for the March quarter, with returns of 0.6%. We're still seeing a positive return of 14.3% (in local currencies) overall from emerging markets for the financial year-to-date.

Bond markets have had a difficult time of late because of interest rate hikes in the US (and the threat of more interest rate hikes to come) due to inflationary pressures. Higher interest rates mean that bonds are worth less and so they have to be sold at a discount to become an attractive investment.

The listed property sector here in Australia has continued to underperform with a loss of -6.2% (S&P/ASX 300 A-REIT Index) for the quarter, and an overall performance of 3.1% for this financial year-to-date. Global listed property has also produced negative returns for the March quarter. However, unlisted property and infrastructure have continued to perform strongly this quarter.

Looking Ahead

Despite the gloomy headlines and recent political tensions, the global economic outlook is still positive and consumer confidence is high.

In Australia, most sectors of the economy are showing signs of improving, although the rate of growth generally remains below that of the US. On a positive note, the RBA is holding interest rates at this stage.

The recent Royal Commission into the Australian banking sector has also caused some concern for investors. This has seen a decrease in the price of bank and financial services share prices and we anticipate that this may continue for some time.

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What does this mean for your retirement savings this quarter?

At LUCRF Super, we're dealing with this market volatility in a number of ways. Firstly, in the MySuper Balanced option (where most members are invested), we look to use strength in share markets to take profits and build up cash when we believe shares have risen above their fair value (we took profits from global shares in mid March, for instance). By building up cash, we have the opportunity to buy shares at lower levels.

In addition, we continue to look at ways to diversify the MySuper Balanced option and to look for attractively priced alternative assets and real assets (such as unlisted property and infrastructure, which don't suffer from the same levels of volatility as their listed equivalents).

We continue to encourage members to keep a well-diversified portfolio through this market volatility, as switching in and out of long-term investment strategies due to short-term market fluctuations can be more costly in the long run.

It wouldn't be surprising if this bumpy ride continued for a while. However, the global outlook is positive and volatility is a normal part of investment markets.

Latest returns

This table shows how your investment has performed for the quarter and the 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/TTR rates		Pension rates	
	(01/01/2018 to 31/03/2018)	(01/07/2017 to 31/03/2018)	(01/01/2018 to 31/03/2018)	(01/07/2017 to 31/03/2018)
Pre-mixed				
MySuper Balanced*	-0.39%	5.57%	-0.42%	6.19%
High Growth	-0.58%	6.78%	-0.74%	7.42%
Targeted Return	0.46%	3.58%	0.68%	4.24%
Moderate	-0.03%	4.43%	-0.07%	4.93%
Conservative	0.09%	3.45%	0.07%	3.86%
Asset class				
Australian Shares	-3.09%	5.68%	-3.20%	6.45%
International Shares	-0.45%	6.96%	-0.67%	7.42%
Indexed Shares	-1.19%	6.99%	-1.19%	7.65%
Property	-5.53%	2.64%	-6.14%	2.96%
Cash	0.47%	1.39%	0.55%	1.64%

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

Contact us
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