Market *update*

Fourth quarter (April-June) 2018

Finishing on a high

Political and economic uncertainty continued this quarter with talk of looming trade wars, rising inflation and the tightening of global monetary policies.

Increased global market volatility was further amplified by the first meeting of President Trump and North Korea's leader, Kim Jong-un. Despite the unease, most markets still managed to finish the financial year on a high, bouncing back from the market lows of February.

Business and consumer confidence was high globally and domestically, and unemployment rates generally decreased around the world.

What this means for your LUCRF Super account

Our strategy for dealing with current market volatility remains consistent with our views and discussion in our last market update.

We are continuing to use strength in share markets by taking profits to build up cash when shares are no longer good value for the risks involved. Then we can buy back in when shares become cheaper (especially within our MySuper Balanced and Balanced option for pensions, where the majority of our members are invested). In addition, we're seeking out fairly-priced alternative assets like unlisted property and infrastructure. These assets are more stable and unlikely to suffer the ups and downs that traditional assets such as shares do.

Key points

- This quarter our MySuper Balanced option returned 3.46% and our Balanced option for pensions returned 3.84%.
- We ended the financial year with a return of 9.22% for our MySuper Balanced option and 10.27% for our Balanced option for pensions.
- Main themes impacting investment markets were talk of trade wars, rising inflation and tightening monetary policy (to slow down economic growth).
- The official cash rate remained at 1.5% – unchanged by the Reserve Bank of Australia (RBA).

How the markets performed

Global developed market shares (unhedged) have performed well with a quarterly return of 5.5% and a return of 15.4% for the 2017/18 financial year.

US market

The US market has been at the centre of much of the uncertainty affecting global shares. Economic stimulus measures in the US (like government spending and corporate tax cuts) along with protectionist policies restricting imports and protecting domestic industries, are aimed at increasing jobs and promoting growth in the US economy. However, these measures are also creating concerns that inflation will rise in the US. This has caused the US Federal Reserve to raise official interest rates and, for the first time since the early 2000s, the US official cash rate is now higher than the RBA's official cash rate.

Other markets

Following on from the debate surrounding the UK's exit from the European Union (EU), Italy's recent election of an anti-establishment, protectionist government is deepening concerns that Italy could also exit the EU. Ongoing trade concerns (particularly with the US) are slowing down European markets. Although the Euro has weakened against the US dollar, this may be seen as a short-term positive. A weaker Euro means that European exports become cheaper to manufacture and for other countries to buy.

Rising US interest rates saw wobbles in emerging market returns, particularly for countries with large amounts of debt in US dollars including Argentina, South Africa and Turkey.

The instability in interest rates meant that emerging markets had lower returns than developed markets with a return of –3.5% (in local currencies) this quarter.

However, business earnings in emerging markets have remained mostly positive leading to emerging markets still achieving a strong return of 10.5% for the 2017/18 financial year, with slightly lower returns than developed markets.

Here at home

The Australian market has remained strong, outperforming global markets to achieve a return of 8.4% this quarter. The highest performing sectors were energy, technology and consumer staples. Growth in these sectors, and the economy as a whole, was mainly due to net exports and increased government spending.

For the 2017/18 financial year, domestic shares had a return of 13.2%. The Australian listed property sector performed exceptionally well in this quarter compared to the March quarter, with a return of 9.8% (S&P/ASX 300 A-REIT Index), up from a loss of –6% in the last quarter.

In comparison, while global listed property performed satisfactorily, it underperformed the Australian market with a return of 7.3% this quarter.

The RBA has maintained the official cash rate at 1.5%. This rate has remained unchanged for 21 consecutive RBA meetings (held monthly). While unemployment levels have decreased slightly, the RBA has suggested that unemployment levels would need to continue to decrease further before inflationary concerns triggered an increased cash rate (i.e. higher interest rates).

Looking ahead

The current political climate will ensure continued ups and downs in financial markets. We're monitoring the markets closely while maintaining a well-diversified portfolio for our members. As always, we encourage members not to switch in and out of long-term investment strategies in response to short-term movements in the market.

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**.

	Super/TTR rates		Pension rates	
Investment options	**01/04/2018 to 30/06/2018**	**2017/18**	**01/04/2018 to 30/06/2018**	**2017/18**
Pre-mixed				
MySuper Balanced*	3.46%	9.22%	3.84%	10.27%
High Growth	4.46%	11.54%	4.95%	12.74%
Targeted Return	1.16%	4.78%	1.27%	5.56%
Moderate	2.79%	7.35%	3.10%	8.18%
Conservative	2.13%	5.65%	2.37%	6.32%
Asset class				
Australian Shares	6.54%	12.59%	7.23%	14.15%
International Shares	4.76%	12.05%	5.15%	12.96%
Indexed Shares	6.63%	14.09%	7.14%	15.33%
Property	8.65%	11.51%	9.70%	12.94%
Cash	0.49%	1.88%	0.58%	2.23%

*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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