Market *update*

First quarter (July-September) 2018

The outlook remains positive

The investment markets experienced significant waves amidst ongoing trade tensions, a strengthening US dollar and decreasing confidence in emerging markets.

The Purchasing Managers' Index (a measure of the economic health of the manufacturing and services sectors released in the US and many other developed countries around the world) has trended downwards this quarter. Despite this, global market sentiment stayed positive in the September quarter.

The developed markets, particularly in the US and Australia, experienced continued strong returns. In the face of US trading tariffs on Chinese goods, this quarter also saw the European Union (EU) and Japan sign one of the biggest bilateral trade deals in history, covering almost a third of the world's economy.

What this means for your LUCRF Super account

The MySuper Balanced investment option (in which most of our members are invested), as well as the Balanced option for pensions, saw positive returns for July and August and a slight dip in returns in September. With current market conditions as they are, it's likely these ups and downs in fund performance will continue in the coming months. We're still seeking out well-priced alternative assets like unlisted property and infrastructure. These assets are more stable and are unlikely to suffer the ups and downs that traditional assets, such as shares, experience.

Key points

- Our MySuper Balanced option returned 2.15% and our Balanced option for pensions returned 2.42% for the financial year-to-date.
- Main themes impacting investment markets were global trade disputes, an accelerating gap between the US economy and the rest of the world, and a strong US dollar.
- The official cash rate remained at 1.5%, unchanged by the Reserve Bank of Australia (RBA).

How the markets performed

Global developed markets

Global developed market shares (unhedged) performed strongly, with a quarterly return of 7.4% (MSCI World Index ex Australia). This is up from a return of 5.5% in the June 2018 quarter. The Australian dollar has continued to fall against major currency pairs. This means international shares have performed a little better in unhedged terms (as they're worth more when converted back to Australian dollars).

The US market

Government spending, corporate tax cuts and government policies aimed at restricting imports and protecting domestic industries are continuing to promote growth in US markets. The US again surged ahead with a rise in domestic consumption and net exports, helping drive up US stocks this quarter. However, this has also meant that US Treasury yields have risen and bonds have fallen in value. US shares saw a return of 7.7% for this quarter (S&P 500 Index), leading the returns for developed markets.

This strong economic performance also meant that business and consumer confidence has remained high. The labour market also continued to improve, with the unemployment rate dropping from 4.0% in June to 3.7% in September.

While the US is experiencing above-trend growth, this has created concerns about downside risk due to ongoing trade disputes and inflationary pressures. As a result, the Federal Reserve raised its key interest rate in September for the third time this year, to a range of 2.0% to 2.25%.

The UK market

UK shares continued to experience downturns amidst ongoing Brexit concerns and fears of a 'no-deal' Brexit looming (where there'd be no formal agreement reached between the UK and the EU). UK house prices unexpectedly dropped at the fastest pace for almost six months in September, due to sluggish levels of demand for home purchases amid the political uncertainty.

The European markets

The Eurozone has continued to ease this quarter, mainly due to a slowdown of the European Central Bank's bond-buying program (an economic stimulus plan introduced in 2015), rising bond yields in the US and Europe, and a decline in exports due to US tariffs.

However, as previously mentioned, the EU has just signed a historic trade deal with Japan to remove all tariffs, covering about a third of the world's economy. This agreement removes tariffs on European exports such as cheese and wine, while Japan will face fewer trade barriers for automakers and electronics firms. This is anticipated to lead to a jump in growth.

Emerging markets

Emerging markets continued to underperform developed markets in the September quarter, with a return of 1.0% (in local currencies). This is largely due to the trade dispute between the US and China, as well as rising US interest rates which are affecting countries that have large amounts of debt in US dollars.

In response to the current trade tensions, China unveiled new policies to boost domestic demand, including the People's Bank of China cutting reserve ratios (the amount of money banks must have in reserve that they're not allowed to lend out or invest). This is to encourage banks to expand lending and increase investment in local bonds to support the Chinese economy. Other factors affecting emerging market performance this quarter included Turkey's inflation rate rising to nearly 18% in August, leading to a drop of about 20% in the Turkish lira.

Here at home

The Australian share market slowed this quarter with a return of 1.5% (ASX 300 Index), underperforming developed market global shares by 5.9%. This was a better outcome than some expected due to robust consumer and business spending and property investment. Business and consumer sentiment also trended higher this quarter.

However, given the slowdown in credit growth (partly due to softer housing prices and the effect this is having on bank earnings), there are concerns for the economy. High levels of household debt and what this will mean if interest rates increase are also of concern, as the labour market in Australia continues to lag.

The Australian listed property sector continued to perform solidly this quarter with a return of 2.0% (S&P/ASX 300 A-REIT Index). This outperformed global listed property which had a return of 0.3% (FTSE EPRA NAREIT Index).

The RBA has maintained the official cash rate at 1.5%. This rate has remained unchanged for 24 consecutive RBA meetings (generally held monthly).

Looking ahead

We're monitoring the markets closely and 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 markets.

If you have any questions, please call us on **1300 130 780** and speak with one of our financial advisers.

Latest returns

This table shows how your investment has performed for the quarter. 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
	01/07/18 to 30/09/18	01/07/18 to 30/09/18
Pre-mixed		
MySuper Balanced*	2.15%	2.42%
High Growth	3.14%	3.48%
Targeted Return	3.63%	3.75%
Moderate	1.91%	2.14%
Conservative	1.12%	1.33%
Asset class		
Australian Shares	1.97%	2.22%
International Shares	5.96%	6.46%
Indexed Shares	4.26%	4.60%
Property	1.68%	1.89%
Cash	0.49%	0.58%

*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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