UniSuper

January 2016

Investment market update

After finishing broadly flat over 2015, global share markets have had quite a shock in the opening two weeks of 2016, with most major markets down around 6%. Rather than being able to point to a single catalyst for the move, there has been a 'perfect storm' of negatives. Lower levels of liquidity persisting at this time of year have also exaggerated the magnitude of the falls.

Performance of key markets

	% CHANGE				
	MONTH	FYTD	1 YEAR	3 YEARS P.A.	5 YEARS P.A.
Australian Shares (ASX 300)	2.7	-0.4	2.8	9.0	6.7
US Shares (S&P 500) in US Dollars	-1.6	0.2	1.4	15.1	12.6
US Shares (S&P 500) in Australian Dollars	-2.1	5.6	13.9	29.6	20.5
Asian Shares (MSCI Asia)	-0.4	-12.1	-7.8	0.0	-0.6
Australian Dollar (AUD/USD)	0.6	-5.2	-11.0	-11.1	-6.6
Australian Fixed Interest (BBG AUB Composite)	0.3	1.9	2.6	4.7	6.6
Cash (BBG AUB Bank Bill)	0.2	1.1	2.3	2.6	3.4
Balanced option*	**0.8**	**2.7**	**7.6**	**11.7**	**9.2**

Returns are for periods to 31 December 2015. Past performance is not an indication of future performance.
* Returns relate to our Accumulation (not Pension) investment options and are published after fund taxes and investment expenses, other than account-based fees.

See performance information for all options

Though anticipation of the first US Federal Reserve (Fed) interest rate hike in ten years caused significant market volatility during 2015, the actual change itself in mid-December was relatively well received by the market. It marked the beginning of a rally into Christmas that managed to push the Australian share market into positive territory for the 2015 calendar year as a whole. International share markets were also broadly flat over the year.

Despite low returns in the broader share market, the Balanced option still delivered 7.6% in 2015. This was due, in part, to our focus on companies with strong market positions that deliver stable earnings. These companies outperformed the broader Australian market.

A change of tone in 2016

After global share markets finished 2015 on a steady footing, the beginning of 2016 has come as quite a shock. Almost as soon as markets opened for the year, global shares crashed in unison. While most major markets are down around 7-8% since the beginning of the year, markets in China are down around 15%. In the case of the US, this is the worst opening week in the S&P 500 index in its 89 year history.

So what caused the falls?

Rather than being able to point to a single catalyst, a 'perfect storm' of negatives greeted markets in the New Year, including:

- Geo-political concerns re-emerged after North Korea announced it had tested a nuclear device.
- After plummeting over the last 18 months, oil prices fell again in the beginning of the year and are now at a 13-year low.
- Concerns remain about the impact that Fed tightening will have on the availability of capital in global markets.
- Having attempted to prop up the equity market after the bubble burst there in June, authorities in China were unable to stem renewed panic selling, which—alongside the weak manufacturing survey and a fall in foreign exchange reserves—highlighted the difficulties that China continues to face.

Had they *not* occurred concurrently, we don't believe these events would warrant the market reaction we have seen. While some may point to more serious issues, some are just noise. That said, we remain most concerned by events unfolding in China where authorities continue to transition the economy away from the debt-fuelled investment-driven growth model of recent years, while also attempting to reduce their regulatory control over the economy.

The risk that authorities allow a currency devaluation is increasing as capital outflow intensifies, and this could have significant global consequences.

However, even this doesn't explain the magnitude of recent falls. Rather, with share markets already fully (though not excessively) valued at the outset; the market was vulnerable to a pullback. Combined with lower levels of liquidity that generally persist at this time of year (which means that a given level of buying or selling has a larger than usual market impact), the magnitude of the reaction becomes more explainable.

What does this mean for the rest of the year?

"So goes January, so goes the year" is a well-worn financial market adage that suggests that the month of January sets the tone for the rest of the year. Given the market moves that we have seen in these first few weeks of 2016, should we be worried? Not necessarily.

There is no logical link between market performance in January and the rest of the year. Indeed, while there seemed to be some truth in this rule of thumb in days gone by, the relationship has been negligible over the past 25 years. This is especially so if you adjust for the fact that a very bad month in January will become part of the calculation for the full year. Whilst not an indicator of what will happen in the future, we note that as recently as 2009, the Australian share market fell by 5% in January, but went on to rebound by more than 40% in the remaining 11 months.

Managing your investment portfolio

While market movements like these can be concerning, we encourage all members to think about their investment timeframe and longer term financial goals before making any changes to their investment strategy—as well as seeking advice from a qualified financial adviser.

Learn more about each of our investment options here.