# Trump, Brexit and super changes in the mix for 2017

**2016 was a year of big surprises for investors, but they could be in for even more surprises in 2017, John Collett writes.**

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What a year 2016 was. Britons voted to leave the European Union, Donald Trump won the US presidential election. Both events caught just about everyone by surprise. But the biggest surprise of all, says Craig James, chief economist at CommSec, was how well financial markets reacted to these events. "Unambiguously positive", he says.

The British sharemarket did well following the Brexit vote in June, helped by a sharply lower pound. The US sharemarket performed particularly strongly following Trump's victory in November with markets focusing on his promised program of spending on infrastructure and defence and to lower taxes.


The Australian sharemarket, after a very poor start to 2016, ended up having a very good year with the total returns (share price change plus dividends) of 11.6 per cent following a total return of 3.8 per cent in 2015.

It was helped along by the strong performance of resources sector on the back of the recovery in the prices of most commodities. However, a consequence of strongly rising share prices is that most sharemarkets, including Australia's, are looking fairly valued, analysts say. Craig James is expecting modest growth in Australian share prices this year of perhaps 4 per cent. Nevertheless, the total return could be twice that thanks to the dividends paid by Australian companies.

## US exposure

John Murray, the managing director of fund manager Perennial Value Management, says those Australian-listed companies with offshore earnings, particularly earnings from the US and Europe, could do better.

The fund manager holds Australian-listed companies with US-dollar earnings such as Ansell, ResMed, Boral, Westfield Holdings, Macquarie and Lend Lease. Perennial Value Management's portfolios also include a number of companies that pay fully-franked dividends.

"We don't bet the house on just a few stocks, but Australian companies with US-dollar earnings could be a significant beneficiary," says Murray, referring to Trump's pro-economic growth policies. Australian companies with US-dollar earnings would also get a lift, from an Australian investors' perspective, on any weakness in the Australian dollar against the US dollar, Murray says.

Some of those stocks included in fund manager's portfolios, like Ansell and ResMed, also do significant business in Europe. Murray says numerous indicators show that both the US and Eurozone economies are picking up.

## Japan

Matt Sherwood, head of investment strategy at Perpetual Investments, says Japanese shares could enjoy a good year. There will be more fiscal stimulus this year and valuations look quite attractive, especially with Japan's central bank keeping rates at zero per cent, Sherwood says.

There is also the 15 per cent depreciation of the yen against the US dollar, which will be "highly supportive" of earnings-per-share growth of Japan's exporters, he says.

Sherwood is less keen on US shares. "I tend to think that the US market is almost priced for perfection," he says. The US economy and corporate earnings will improve but the Trump fiscal stimulus will not become effective until October at the earliest, which will test investors' patience, Sherwood says. The Trump stimulus is also mostly priced into share prices and there could be delays getting policy through Congress, Sherwood says.

## Europe

Sherwood is more hopeful for European shares. That's notwithstanding the elections in Germany, France, Italy and The Netherlands this year and, possibly, an election in Italy also in which Eurosceptic and anti-establishment parties could do well. Economic growth in the Eurozone will be about 1.5 per cent this year, which is strong by European standards, Sherwood says.

Global reflation is favourable to energy, materials and financial sectors to which European sharemarkets are particularly exposed. It could be good for share prices if the political risks are contained, he says.

## Debt control

Scott Haslem, the managing director and chief economist for UBS Australasia, says everyone should be careful not to take on too much debt. He thinks the Reserve Bank will most probably leave interest rates unchanged this year.

But interest rates are going up around the world and Australian lenders have increased their fixed-rate mortgage interest rates as their cost of funding rises.
There are likely to be more "out-of-cycle" mortgage rate increases this year including, perhaps, increases in variable mortgage rates, Haslem says.

Analysts have predicted the big banks may increase interest rates on variable rate home loans this year, after the big four raised interest rates for property investors in the lead-up to Christmas

Haslem says the prospects of higher mortgage rates means those borrowing for housing and investment need to make sure they have spare financial capacity to service higher interest rates.

## Super changes

There are important changes to superannuation this year. Financial planners say those sacrificing salary into super need to be aware that from next financial year the cap on "concessional" contributions, as they are known, will be $25,000 for everyone. For this financial year the cap is $30,000 for those under age 50 and $35,000 for those over 50. The caps include compulsory super, which is 9.5 per cent of salary, and care needs to be taken not to exceed the new, lower cap.

The $180,000 "non-concessional" cap and the three-year bring-forward cap for non-concessional contributions will remain in place until June 30 this year. These are voluntary contributions where the money comes from savings, selling assets, from inheritances and redundancy payments, for example. Many people like to shift this money into super, where it is lightly taxed and not taxed in retirement subject to certain conditions.

The bring-forward rule is where up to three years' worth of contributions – $540,000 – can be made in a single financial year with no further contributions allowed for the subsequent two financial years. From July 1 this year the $180,000 non-concessional cap will be lowered to $100,000 and the three-year bring forward cap lowered to $300,000.