

How have investment markets performed?

Investment commentary

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BT Investment Management, April 2008

Australian shares

The Australian sharemarket finished down 14.6% for the March 2008 quarter, its worst quarter of performance for 20 years.

With nearly 30% of our sharemarket invested in financial stocks, local shares were harder hit than their US counterparts. Shares were driven lower by the credit market fall out and rising fears of systemic risks in the global financial system. Though intervention by the US Federal Reserve went some way to boost liquidity and restore confidence.

The period was characterised by a significant unwinding of leverage (borrowing) as large volumes of stock were sold to meet waves of margin calls. Also, brokers Opes Prime and Tricontinental, and ABC Learning were the main casualties.

Consumer discretionary, utilities and high price earnings ratio stocks (except healthcare) also bore the brunt of the sell-off. Financials bounced back strongly in March but were still down 23% for the quarter.

International shares

In Australian dollar terms, the MSCI World (Ex-Australia) Index (Net) fell by 12.4% over the March 2008 quarter in a period characterised by heightened volatility. The global sub-prime shockwaves continued, culminating with the US Federal Reserve in conjunction with JP Morgan stepping in to rescue Wall Street investment bank Bear Stearns. The unprecedented intervention by the Federal Reserve was made to alleviate rising fears of systemic risks in the global financial system.

The turmoil in credit and equity markets fuelled increased commodity trading. Both hard and soft commodities prices soared to record levels in early March. The pricing of commodities has contributed to signs of higher inflation in most developed markets, adding to the challenges facing central banks globally in dealing with the possibility of a US led global recession. Continued weak economic indicators added to growing evidence that a US recession was a reality and the International Monetary Fund revised lower their 2008 world growth forecasts that were first announced in October 2007.

Investment market returns

How investment markets have performed annually over the past 5 years (to 31 March)

Year	Shares			Fixed interest		
	Australian %	International (Unhedged) %	Listed property trusts %	Australian %	International (Hedged) %	Cash %
2004	23.83	13.74	13.94	4.17	6.58	5.11
2005	25.40	8.80	19.76	4.80	7.52	5.56
2006	30.22	27.96	18.21	6.74	4.95	5.80
2007	22.03	1.47	28.40	3.70	6.05	6.21
2008	-7.21	-14.56	-22.81	4.29	9.30	6.99

Listed property trusts

The Listed Property Trust (LTP) sector slumped over the March 2008 quarter, posting a total return of -19.3% (S&P/ASX200 Property). The property sector underperformed the broader equity market by 3.8%, a result of continuing evidence of a substantial slowdown in the US and UK economies as well as their respective property markets. What began initially as a slowdown in the US housing/financial markets has spread to US labour markets (rising unemployment).

The LPT sub-sectors were all sharply lower in the March 2008 quarter. The Industrial sector was strongest (-11.8%) for quarter due to a solid performance by Goodman Group. The Retail sub-sector (-16.9%) also performed relatively well with investors comfortable with the defensive earnings streams of CFS Retail and Westfield. The Office sector (-28.1%) was battered although most of the weakness is attributable to the Rubicon office vehicles (RAT, RRT and REU) and Macquarie Office Fund (-33%).

Fixed interest securities

In February and March, the Reserve Bank of Australia increased rates by a cumulative 0.5% taking the official rate to 7.25% from 6.75%. Australian and International bond yields fell over the quarter. The Australian 3-year bond maturity fell by 0.66% to 6.13%, the 10-year fell by 0.23% to close at 6.05% and the 3 to 10 yield curve inversion sharply narrowed to near flat.

On a relative basis to the US, the AUD-3/US2-year spread moved out to 0.46% and the 10-year spread widened to 0.26%. Inflation indexed 10-year real yields fell 0.18% to 2.77% after touching a high of 3.05% during the March 2008 quarter.

Credit spreads spiked sharply higher in January and February and partially recoiled by quarter-end. Credit spreads blew out on average by 0.5% to close at 1.11% over swap. (A credit spread is the difference in yield between different securities, which is due to different credit quality or credit ratings.)

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