

How have investment markets performed?

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BT Investment Management, April 2009

Investment commentary to 31 March 2009

Australian shares

The Australian sharemarket was down 2% for the first quarter of 2009 with the market nearly making up all lost ground in March, following two months of negative performance.

The March quarter saw a degree of re-emergence of confidence and risk appetite with Governments continuing to respond to the weakening environment by deploying fiscal and monetary measures. There are also encouraging signs that China may be recovering from the dramatic slowdown it had at the end of 2008, notably loan growth has surged which is promoting activity in the property market, which is the key driver of the domestic economy.

The reporting season in February was characterised by companies warning of a deteriorating outlook for their businesses and disappointing cash flows. Earnings were downgraded across all major sectors primarily driven by margin contraction, capital conservation continued to be the primary concern of management, and dividends were cut aggressively.

At the sector level, there was a shift away from defensive sectors as the markets gained confidence. Traditionally defensive sectors such as Consumer Staples, Healthcare, Utilities and Telecoms underperformed the broader market while banks, energy and resources sectors outperformed.

International shares

In Australian dollar terms, the MSCI World (Ex-Australia) Index (Net) fell 11.9% in the March quarter.

Details of the US Public-Private Investment Program (PPIP) and the Term Asset-Backed Securities Loan Facility (TALF), and the announcement of the quantitative easing (QE) policy clearly improved investor sentiment towards the latter part of the quarter. However, with uncertainty surrounding the US auto bailout, the market struggled to maintain the gains at the end of the quarter. Still, most equity indices remain in the red for the first quarter of 2009.

The US dollar started to depreciate with increasing risk appetite and the QE announcement and other rescue packages put the reserve currency under pressure at the end of the quarter.

Listed property trusts

The Listed Property Trust sector traded significantly lower over the March quarter, posting a total return of -24.4% (S&P/ASX200 Property), substantially underperforming the broader market by 22%.

After two down months the LPT sector registered a small positive (+0.40%) performance in March. This upswing reflects a change in investor risk appetite following the successful passage of the TARP package in the US to deal with toxic assets which could assist to significantly unclog the US credit markets.

The weakness in the LPT sector reflected the impact of a series of stock recapitalisations (Westfield Mirvac and Commonwealth Office) and dividend cuts (Westfield and Mirvac). Returns from the various LPT sub-sectors were all negative over the quarter. Retail (-18%) was the least weak sub-sector, Diversifieds posted a -29% return; the weakest sector was Industrial (-53%).

Fixed interest securities

Having avoided the worst of the downturn in 2008 the Australian economy began to feel the effects of the global recession at the start of 2009. Retail sales for February dived into negative territory and building approvals came in much weaker than expected. Unemployment also moved up from 4.4% in December to 5.2% rate in March.

In February the RBA cut interest rates by 100bps to bring the base rate down to 3.25%. More importantly it issued a statement indicating that while the global economy was continuing to weaken the RBA felt that the combination of fiscal and monetary stimulus already delivered to the Australian economy should cushion it from the worst of the global downdraft. Accordingly in March the central bank left rates at 3.25%.

Investment market returns

How investment markets have performed annually over the past 5 years (to 31 March 2009)

Year	Shares			Fixed interest		
	Australian (%) ASX 300	International Unhedged (%) MSCI AUD	LPTs (%) S&P200	Australian (%) UBS Comp 0	International Hedged (%) Citi Hedge	Cash (%) USB BB
2005	25.40	8.80	19.76	4.80	7.51	5.56
2006	30.22	27.96	18.21	6.74	4.96	5.80
2007	22.03	1.47	28.40	3.70	6.04	6.21
2008	-7.21	-14.56	-22.81	4.29	9.29	6.99
2009	-29.80	-24.48	-57.64	12.77	10.03	6.69

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