

How have

investment markets performed?

Investment commentary to 30 June 2009

Robert Swift, Head of Multi Strategies
BT Investment Management, July 2009

Australian shares

The Australian sharemarket gained 11.5% in the June quarter breaking a run of six straight quarterly declines, and registered +9.4% for the six months to 30 June 2009.

While negative economic news continued, markets focused on those indicators which suggested that the rate of contraction in the global economy is decelerating. Adding to investor confidence were signs that China's recovery would be sustainable including the release of further strong economic data in that country.

In Australia, the Government's fiscal stimulus contributed to increased domestic demand with retailers a major beneficiary of the spending package. Companies continued to take the opportunity to fix their balance sheets through capital raising and the good news became self-fulfilling, building further momentum into the market.

More cyclical sectors generally outperformed with Consumer Discretionary (+17.4%) the standout performer as investors returned to stocks with higher-risk earnings. Large issuers of capital over the quarter included ANZ, Rio Tinto, Bluescope Steel, Macquarie Group and Asciano.

International shares

In Australian dollar terms, global sharemarkets as measured by the MSCI World (Ex-Australia) Index were up 3.5% for the quarter though in local dollar terms the gain was 16.6% due to the strong rise of the Australian dollar over the period. The Aussie dollar broke a run of three down quarters with a strong rebound in the second quarter, posting a gain of 16.6% against the USD to end June at USD\$0.81.

In the US, the S&P 500 gained 15.2% in the June quarter, the strongest quarterly performance since Q4 1998. The best performing sector was Financials (+35.1%), which recovered from low levels as investors looked for a stabilisation of asset values and credit conditions. Other cyclical sectors also outperformed, notably Consumer Discretionary (+17.7%)

and Materials (+15.5%). More defensive sectors such as Telcos (+1.9%) and Healthcare (+8.3%) lagged. First quarter earnings for the S&P500 were reported down 37% on the previous year, but this was no worse than anticipated.

Listed property trusts

The Listed Property Trust sector recovered over the June 2009 quarter, posting a total return of +15%, outperforming the broader equity market by 4%.

This upswing in the second quarter reflects a change in investor risk appetite with both equity and credit markets improving. The strong price performance in the sector occurred despite raising over \$3 billion in the quarter.

During the period credit spreads reduced as investor risk appetite improved. Returns from the various LPT sub-sectors were all positive. Industrial (+24%) was the strongest sub-sector, diversified posted 19% returns largely driven by residential names; while the weakest sector was office (8%).

Fixed interest securities

In economic news, the Australian economy continued to avoid the worst excesses of the global recession and there were indications that the re-emergence of Chinese demand for resources might just cushion any Australian downturn.

The RBA continued its 'wait and see' approach that it had adopted at the end of the first quarter. The central bank indicated that while the global economy was continuing to weaken, the combination of fiscal and monetary stimulus already delivered to the economy should cushion it from the worst of the global downdraft. Consequently the RBA cut interest rates by 25bps in April and then left rates on hold at 3% for the rest of the quarter. Meanwhile Australian bond yields shot up as investors moved back into equities with the 3 year bond rising from 3.4% to 4.5% and 10 year bonds from 4.4% to 5.5%.

Investment market returns

How investment markets have performed annually over the past 5 years (to 30 June 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	26.03	0.06	18.10	7.79	12.32	5.64
2006	24.02	19.88	18.05	3.41	1.20	5.76
2007	29.21	7.77	25.87	3.99	5.20	6.42
2008	-13.67	-21.26	-36.35	4.42	8.69	7.34
2009	-20.34	-16.24	-42.27	10.82	11.48	5.48

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