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How have investment markets performed?

Investment commentary

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BT Investment Management, July 2008

Australian shares

The Australian sharemarket finished down 1.7% for the June 2008 quarter marking its third consecutive quarterly decline and a 13.6% fall for the 2007/2008 financial year, the worst since 1982. Sentiment turned negative over the quarter on concerns of rising inflation, record high oil prices and continued ructions in global credit markets.

Australian shares had made a positive start to the quarter with a strong rally in April as the market reacted positively to the Bear Stearns bail-out and the US Fed's injection of funds into the financial system. The rally lasted until mid-May before a rising oil price and downgrades at a number of global financial institutions reversed the gains and pushed stocks to their lowest since late 2006. The Australian dollar rallied to a post-float record high in May of US96.54c while oil closed the quarter near $US145 a barrel.

Beyond the headline result however, without the Resources sector the local sharemarket would have looked much worse. With record prices for coal, iron ore and oil, resource stocks were propelled to new highs with the sector rising 18.6% over the quarter. In contrast, the Industrials sector fell 11.4%, weighed down by rising interest rates, higher fuel costs and the de-rating of leveraged stocks, particularly infrastructure.

International shares

In local currency terms, the MSCI World ex-Australia (net dividends) Index fell by 1% over the June 2008 quarter. For unhedged Australian investors, the strength of the Australian dollar exacerbated the poor performance of global sharemarkets, with the MSCI World ex-Australia (net dividends) Index falling 6.6% in Australian dollar terms over the quarter.

Global sharemarkets came under pressure from mid-May with a strongly rising oil price and renewed inflation concerns weighing heavily on the market. With inflation moving into the radar screen, central banks have firmly stated their intent to fight rising inflation and inflation expectations. The divergence of performance between commodity related companies and financials became increasingly stark. Soaring commodity prices have driven resource companies to new highs, while banks and other industrials bear the brunt of investor nervousness.

Listed property trusts

The Listed Property Trust sector slumped over the June 2008 quarter, posting a total return of –15.5% (S&P/ASX200 Property). The property sector underperformed the broader equity market by 13.7%. On an annual basis, the property sector has returned –37.7% for the 12 months to June 2008.

The underperformance of the sector was a result of continuing weakness in world credit markets. Investors are concerned that asset values will fall and that the credit cycle will lead to a widespread economic slowdown that will depress rental incomes. All of the List Property Trust sub sectors were sharply lower over the quarter. Office (9.2%) was the strongest sub-sector driven by a strong performance from Commonwealth Office. The Retail sub sector (–9.2%) also performed relatively well with investors comfortable with the defensive earnings streams of CFS Retail and Westfield.

Fixed interest securities

Australian bonds trended higher over the quarter on the surge in domestic inflation and the rise in global yields. The 3-year bond maturity rose by 0.58% to 6.71%, the 10-year rose by 0.4% to close at 6.45%. The Reserve Bank of Australia (RBA) left rates unchanged at 7.25% though in their policy minutes focused on the potential for rising inflationary expectations. The RBA highlighted the substantial tightening in financial conditions and the expectation that demand growth will slow. If growth re-accelerates and rising inflationary expectations drive wages higher then RBA policy will need to be adjusted. Inflation surged during the March quarter with an increase in broad based price pressures.

Consumer inflationary expectations continued to trend higher accelerating to 5.9% in June. This will worry the RBA which is closely monitoring any break-out in this series which will be inconsistent with its inflation target over the medium term.

Investment market returns

How investment markets have performed annually over the past 5 years (to 30 June)

	Shares			Fixed interest		
Year	Australian %	International (Unhedged) %	Listed property trusts %	Australian %	International (Hedged) %	Cash %
2004	21.73	19.37	17.24	2.33	3.51	5.30
2005	26.03	0.06	18.10	7.79	12.33	5.64
2006	24.02	19.88	18.05	3.41	1.20	5.76
2007	29.21	7.77	25.87	3.99	5.21	6.42
2008	-13.67	-21.26	-36.35	4.42	8.70	7.34

How to find more information?

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- Ring Customer Service on **1300 650 873** for the cost of a local call (unless calling from a mobile or pay phone) Monday to Friday 8.30am – 5.30pm (AEST).

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