

# How have investment markets performed?

Investment commentary to 30 June 2010

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## Australian shares

The Australian sharemarket began the second quarter with positive momentum but a weak May and June saw the index lose -11.2% over the period.

At a sector level, the market had varied results. Defensive sectors were strong, while cyclical sectors such as Industrials, Banks and Consumer Discretionary sectors underperformed the index. Telecom and Consumer Staples had the best relative performance in the market. Despite falling commodity prices, anxiety about global growth and the miners' vehement opposition to the Government's proposal for a Resources Super Profits Tax weighing on the sector, Resources roughly matched the market over the period (-11.0%). Meanwhile Banks (-17.1%) were affected by a lacklustre results season and concerns about funding costs.

Many companies updated the market on earnings as the end of the financial year approached with most guiding expectations lower. In major company news Telstra reached a non-binding agreement to participate in the Government's National Broadband Network initiative while Lihir Gold was the subject of a successful bid from Newcrest Mining.

## International shares

Increasing sovereign risk around EU countries and a weaker-than-expected economic recovery in the US and China saw investors move to defensive assets during the June quarter.

In Australian dollar terms, the MSCI World (Ex-Australia) Index (Net) was down -4.8% for the quarter, while in local dollar terms global returns fell -11.2% due to a weaker Australian dollar.

In the US, the S&P 500 reached its best level for the first half of 2010 in late April, only to give back all of its gains for the year and lose -11.9% for the quarter. The US first quarter earnings season was strong relative to expectations but cyclical sectors were hit by uncertainty in Europe and concerns about the durability of the US recovery. Financials (-13.9%) also had to contend with a tough regulatory reform bill which worked its way through Congress during the second quarter.

## Listed property trusts

The Listed Property Trust sector fell -1.5% in the June 2010 quarter but was up 20.3% for the financial year. There was relatively limited corporate activity over the quarter. Mirvac completed a \$350 million raising to acquire the Westpac Office Trust. This transaction reduces their reliance on residential earnings and raised the quality of their office portfolio.

Returns from the various LPT sub-sectors were mixed over the quarter. The Defensive Retail sector (+1.4%) performed well. Office returns were neutral (+0.1%) while the more cyclical Industrial (-3.3%) and Diversified (-4.8%) sectors posted negative returns. This outcome largely reflects the defensive rotation.

## Fixed interest securities

The RBA raised interest rates a further 25bps in April to bring the base rate to 4.25%. Citing surging Asian growth and an overheating housing market the RBA also appeared to signal that more rate rises were on the way in the coming months. In May the RBA added another 25bps bringing the base rate to 4.50%. Against a background of persistent economic uncertainty and the real possibility of the world sliding into a second recession the RBA declined to raise interest rates in June.

Local data mostly pointed to continued economic resilience, notably employment which rose by 92,000 from March to May. However housing and consumer releases were more mixed and market expectations of future rate hikes backtracked over the quarter.

Most bond markets were strong in the second quarter as the European fiscal crisis undermined both risk appetite and the prospects for growth in the region. The Australian 10-year benchmark yield shed 69 basis points and its US equivalent 90 basis points.

## Investment market returns

How investment markets have performed annually over the past 5 years (to 30 June 2010)

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
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
2010	13.05	5.22	20.41	7.86	9.18	3.89

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