

How have investment markets performed?

Investment commentary to 30 September 2008

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BT Investment Management, October 2008

Australian shares

The Australian sharemarket finished down 10.7% for the September quarter, its fourth consecutive quarterly decline, as the US financial crisis worsened and concerns grew on the outlook for global growth.

July and August were mirror images with the market declining and then rising by approximately equal amounts. In July, the resources sector fell sharply, breaking a run of out-performance over industrial stocks as commodities sold off. Lower oil prices and the prospect of lower interest rates gave a brief respite however the recovery was short-lived as a number of banks warned that their earnings would take further hits from credit write-downs.

The Australian share market recovered in August as the RBA signalled a rate reduction and oil prices fell further. The reporting season largely demonstrated that while slowing, the local economy was holding up reasonably well. Markets went sharply into reverse in September however as a chain of events in the US cascaded through the financial system. Compounding the market stress was the introduction by a number of global exchanges of short selling restrictions including ASIC's 30 day ban on all short selling.

International shares

In local currency terms, the MSCI World ex-Australia (Net Dividends) Index fell 0.7% over the September 2008 quarter. For unhedged Australian investors, the falling Australian dollar cushioned the declines of global share markets, with the Index gaining 3.5% in Australian dollar terms over the period.

Growing fears over the financial crisis dominated market sentiment and volatility increased as the number of unprecedented events increased towards quarter end. Some of these included: the US Federal Government bailing out mortgage giants Freddie Mac & Fannie Mae and taking an 80% stake in American Insurance Group, Lehman Brothers filing for Chapter 11 bankruptcy and Merrill Lynch being bought by Bank of America.

Restrictions on short selling of financial stocks, introduced across a range of global exchanges, compounded the market volatility in September.

Listed property trusts

The Listed Property Trust sector was slightly lower over the September 2008 quarter, posting a total return of -1.7% (S&P/ASX200 Property). Over the same period, the property sector outperformed the broader equity market by almost 9%.

The modest 1.7% move by the market belies the underlying volatility with the sector moving in a range of 34% over the quarter. Much of the recovery in the sector from its lows was driven by a reasonable reporting season where underlying property income was seen as still holding up despite weaker economic conditions. Additionally a number of trusts reduced payout ratios to reflect the weaker credit markets and, generally, this was well received by the market.

Fixed interest securities

Australian bond yields moved lower on growing domestic rate cut expectations and against a background of international financial turmoil. The 3-year bond yield fell to 5.1% and the 10-year fell to close at 5.39%. In a widely anticipated move the RBA cut interest rates by 25bps to 7% at the start of September and issued a statement that was viewed as fairly neutral on whether they would cut again in October or November. The Australian dollar fell substantially over the quarter, to just over 0.79 per US\$, as a result of the lower interest rate outlook and the overall weakening of commodity prices.

As a standout in a sea of bad news the Australian economy continued to display signs of resilience with the unemployment rate shrinking to 4.1% from 4.3% in August and soaring oil and coal exports turning the trade balance from a deficit to the second biggest surplus on record.

Investment market returns

How investment markets have performed annually over the past 5 years (to 30 September 2008)

Year	Shares			Fixed interest		
	Australian %	International (Unhedged) %	Listed property trusts %	Australian %	International (Hedged) %	Cash %
2004	20.67	9.21	29.00	5.23	7.20	5.49
2005	31.73	12.37	16.51	5.75	9.09	5.68
2006	16.01	16.91	25.61	4.78	4.21	5.87
2007	32.70	1.37	20.06	3.47	5.05	6.54
2008	-27.08	-16.68	-40.44	8.37	9.63	7.65

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