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How have investment markets performed?

Investment commentary to 30 September 2009

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

Australian shares

The Australian sharemarket gained 21.6% over the September quarter on improved growth prospects and greater investor optimism as economic indicators pointed to a short and shallow downturn.

There was a general rotation to cyclical sectors on signs that the Australian economy was stabilising. Banks (+35.6%) was the strongest sector as concerns eased about the loan loss cycle. However, Resources (+11%) underperformed as commodity prices were mixed in $A terms. Defensive sectors lagged the market. Telecoms (-3%) was the worst performing and also hit by concerns about the regulatory regime facing Telstra.

The pace of equity capital-raising slowed in the September quarter as most companies had already raised capital if they needed to and the cost and availability of debt improved. However, National Australia Bank, Goodman Group and AWB were among those who tapped the market.

Earnings delivery in the August reporting season was generally better than the low expectations and a number of companies flagged that operating conditions were showing signs of improvement.

International shares

In Australian dollar terms, the MSCI World (Ex-Australia) Index (Net) was up 7.1% for the quarter though in local dollar terms the gain was 14.6% due to a strong rally in the AUD.

In the US, the S&P 500 was up 15.0% in the September quarter and close to topping the 15.2% rally of the June quarter. The September close was 56.3% above the closing low of 9 March 2009. As in the second quarter, Financials (+25.1%) was the top performing sector as investors responded to a continued easing of credit markets. Cyclical sectors such as Consumer Discretionary (+18.8%) and Materials (+21.0%) also fared well while defensive groups such as Telcos (+3.9%) lagged. Second quarter earnings for the S&P500 were reported down 28% on the previous year, better than the anticipated 36% fall.

Listed property trusts

The Listed Property Trust (LPT) sector performed strongly over the September quarter, posting a total return of 30% (S&P/ASX200 Property). This upswing reflects an expectation that asset values have bottomed (or are close to the bottom) and that earnings will recover from the 2009/10 financial year onwards. Listed Property Trusts are now up over 70% since their low point in March 2009. The sector has raised $15 billion since the financial crisis started and as a result gearing has fallen to 29%.

Returns from the various LPT sub-sectors were all very strong over the quarter. Industrial (+105%) was the strongest sub-sector; Diversifieds posted 32% returns – largely driven by residential names – while the weakest sector was Office (+24.8%).

Fixed interest securities

In a repeat of the pattern seen in the last quarter the Australian economy continued to avoid the worst excesses of the global recession. While unemployment was up it rose less than expected, building approvals bounced back, house prices began to rise and retail sales were strong.

The RBA continued its ‘wait and see’ approach and left rates on hold at 3% for the September 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 Australian economy should cushion it from the worst of the global downdraft.

Though on speculation that the RBA would raise sooner rather than later the A$ continued to appreciate strongly against the US dollar over the period. 10-year bond yields moved down slightly over the quarter from 5.52% to 5.36% while 3-year bond yields rose from 4.56% to 4.8%.

Investment market returns

How investment markets have performed annually over the past 5 years (to 30 September 2009)

	Shares			Fixed interest		
Year	Australian (%) ASX 300	International Unhedged (%) MSCI AUD	LPTs (%) S&P200	Australian (%) UBS Comp 0	International Hedged (%) Citi Hedge	Cash (%) USB BB
2005	31.73	12.37	16.51	5.75	9.07	5.68
2006	16.01	16.91	25.61	4.78	4.21	5.87
2007	32.70	1.37	20.06	3.47	5.04	6.54
2008	-27.08	-16.68	-40.44	8.37	9.27	7.65
2009	8.51	-13.41	-23.73	7.07	10.15	4.31

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- Email your enquiry to **enquiries@firststatesuper.com.au**
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