



## Market update mid October 2008

(Prepared by Mark Sainsbury, Chief Investment Officer, FSS Trustee Corporation)

### The challenges continue...

As we enter the second quarter of the new financial year, we continue to face challenges that affect all asset classes - shares, bonds, property, unlisted assets and cash.

The banking support package recently announced by the US Government was initially designed to allow the US Treasury Department and the Federal Reserve banking system to acquire a series of poorly performing assets from banks, in exchange for fresh capital to be released by the banking system in the form of new, and presumably better performing, loans. Subsequent banking packages announced by the US and European governments are designed to improve the credit quality of the banks' balance sheets, and to reduce their 'loan to capital' ratios. In simple terms, these support packages are aimed to be used to buy shares in banks (and thereby take control of their poor-performing loan portfolios) and to boost the liquidity of credit markets.

The Australian Federal Government has guaranteed Australia's bank deposits for the next three years and the details will be legislated as part of the Financial Claims Scheme under the *Financial System Legislation Amendment (Financial Claims Scheme and other Measures) Bill 2008*. This Bill was passed in Parliament on 15 October 2008 and is awaiting Royal Assent. While this measure has boosted demand for the Australian dollar, the outlook for the local currency is strongly linked to global economic growth and commodity prices.

The success of these various banking support packages will be measured by:

- whether the injection of new capital restores confidence in the ability of banks to make new loans, either among themselves or to the end customer
- a rise in bank retail deposits
- improvement in consumer confidence.

We need to recognise that it will take time to improve the banks' lending and capital positions, and this huge effort to restore confidence in the banking system will take place over a number of quarters, and probably at least until mid-2009, if not longer.

### Close monitoring by First State Super

At First State Super, we have been closely monitoring the prospects for investment markets for the remainder of this financial year and beyond. Generally speaking, the portfolios have been defensively set to avoid the company-specific difficulties which have emerged, although when markets fall, all investment portfolios tend to display disappointing numbers.

The Fund will try to mitigate the more severe effects of the market falls by reducing exposure to share markets where appropriate, but to also look for opportunities when markets show that some confidence has returned.

### Where to from here

Ongoing uncertainty means that it is too early to forecast any fast rebound in 2008–09. Share markets have fallen heavily since 1 July 2008 and there is high to extreme daily volatility in markets which produces dramatic movements in unit prices.






# FIRST STATE SUPER

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If you would like a qualified financial adviser to review your investment strategy or your personal financial situation, visit <http://www.firststatesuper.com.au/FSSFinancialPlanning> to find out more or call FSS Financial Planning\* on 1800 665 756.

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