Market Update

INTEGRATED
financial solutions

May 2010

- **Europe's sovereign debt crisis worsens, prompting a €750 billion bail-out fund**
- **Spending bolsters US economy, while exports drop**
- **Resources continue to strengthen despite Government's 40% tax**

What's inside?

The pulse

CPI
0.9% to 2.9%

Cash rate
0.25% to 4.5%

Unemployment
Steady at 5.3%

Business confidence
3 pts to 13 pts

April market performance

Equity Markets – Price Indices	Index	At Close 30/4/10	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4833.88	-1.2%	29.1%
Japan	Nikkei	11057.40	-0.3%	25.3%
Hong Kong	Hang Seng	21108.59	-0.6%	36.0%
UK	FTSE 100	5553.29	-2.2%	30.9%
Germany	DAX	6135.70	-0.3%	28.6%
US	Dow Jones	11008.61	1.4%	34.8%
EMU*	Euro 100	2236.06	-2.3%	26.2%
World**	MSCI – Ex Aus	867.01	0.2%	30.3%
Property – Price Index	**Index**	**At Close 30/4/10**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	ASX A-REITS	899.85	3.7%	27.9%
Interest Rates		**At Close 30/4/10**	**% Change 1 Month**	**% Change 12 Months**
Aust 90 day Bank Bills		4.63%	0.1%	1.6%
Australian 10 year Bonds		5.71%	-0.1%	1.0%
US 90 day T Bill		0.02%	0.0%	-0.1%
US 10 year Bonds		3.66%	-0.2%	0.5%
Currency		**At Close 30/4/10**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	0.9243	0.7%	27.2%
British pound	A$/STG	0.6054	0.2%	23.3%
Euro	A$/euro	0.6948	2.3%	26.6%
Japanese yen	A$/yen	86.78	1.2%	21.1%
Trade-weighted Index		72.50	1.1%	21.4%

* Top 100 European stocks trading on the FTSE ** Source: www.msci.com
Source: Iress Market Technology
Past performance is not a reliable indicator of future performance.

Global economies

The ongoing Greek debt crisis took a turn for the worse during April as their long-term foreign currency (sovereign) rating was downgraded by Standard and Poor's (S&P).

Making matters worse, S&P also downgraded the rating of fellow European Union (EU) member Portugal, increasing the widespread perception that similar problems may spread across other European countries with high debt levels. In an attempt to bail out Greece and stop the crisis worsening, the European Union (EU) and International Monetary Fund (IMF) put together an initial financial support package of €110bn. They've since announced a €750 billion bail-out fund to support struggling European economies and to boost the Euro.

On the other side of the Atlantic, a combination of positive economic reports and a better than expected first quarter reporting season added support to the view that the US economic recovery is continuing. This was confirmed by higher growth in consumer spending and an increase in business equipment investment. While this is certainly good news, lower residential and commercial construction and a drop in net exports were a drag on growth.

In China, strong expansionary numbers continue to worry the monetary authorities. The latest attempt to reign in lending growth has seen banks told to stop lending for the purchase of third homes. It's also hoped this will help prevent the problem of large increases in house prices in some cities.

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Overall though, the Chinese economy continued to grow at a relatively strong rate, with official GDP growth at 11.9% for the year ending March 2010.

On the domestic front, strong global and Chinese-led demand for resources continues to boost the Australian economy. Domestic demand, on the other hand, seems to be mixed; with positive indicators including increases in business and consumer confidence, employment growth and capital expenditure countered in part by retail sales and building approvals.

Not surprisingly, with higher than average levels of business and consumer confidence, house prices in Australia continued to rise strongly through the March quarter.

And, continuing the positive news the IMF upgraded its forecast for global economic growth for 2010 by 0.3% to 4.2%, while leaving its forecast for 2011 unchanged at 4.3%.

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Equity markets

The sovereign debt crisis in Greece continued to loom large with equity markets losing some of the hard won gains late in the month of April.

While the ongoing signs of a global economic recovery succeeded in pushing markets higher in the first half of the month, the escalating tensions surrounding Greece's debt issues resulted in some large daily losses in the last week of April.

Concerns were compounded by the German government's refusal to approve any rescue package unless Greece agreed to cut its deficit. As confirmation the crisis wasn't Greece's alone to deal with, S&P took the measure of giving credit downgrades not only to Greece but Portugal and Spain as well.

On top of these worrying issues, news that the US Securities and Exchange Commission had charged Goldman Sachs with fraud further spooked investors. And in one of the more unusual global influences, markets suffered further losses due to Iceland's volcanic eruption, with airline and airport stocks hit the hardest.

Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	32.47%	-3.97%	8.40%	11.61%
	S&P/ASX 50 Acc.	31.77%	-2.49%	8.85%	11.57%
	S&P/ASX Small Ordinaries Acc.	39.26%	-8.99%	7.16%	12.08%

On the mining front, BHP Billiton and Rio Tinto suffered sharp falls in share prices after the much publicised 40% resource super profits tax was announced by the Australian government.

While NAB Wholesale Banking (NAB) doesn't believe this will significantly impact mining investment or production, they do believe the large mining companies will be running with the worst possible scenarios in their efforts to have the new tax changed or dropped.

Further to this, NAB believes that the after-tax profits of the mining industry will continue to grow thanks to rising commodity prices and increases in export demand especially from China and India.

In the bigger picture, the Australian sharemarket couldn't continue the run of strong gains achieved in March with the S&P/ASX 300 Accumulation Index falling 1.35% in April. The S&P/ASX Small Ordinaries Accumulation Index outperformed the larger cap stocks with a monthly marginal gain of 0.2%.

This is in line with performance over the year with small caps outperforming large caps over the 12 months to April 2010, registering 39.28% compared to 32.47% for the ASX 300.

Sector	1 Mth	3 Mths	1 Yr
Energy	-2.5%	6.9%	12.6%
Materials	-5.2%	5.8%	29.0%
Industrial	-1.8%	2.0%	36.7%
Consumer Discretionary	-1.2%	5.5%	31.7%
Consumer Staples	-4.4%	4.0%	10.8%
Health Care	-7.8%	1.8%	3.3%
Financials	-0.1%	6.6%	39.5%
Info Tech	-5.3%	4.3%	34.3%
Telcos	4.7%	-5.0%	-6.1%
Utilities	-0.5%	4.8%	1.6%
Property	2.8%	3.3%	27.9%

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Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	7.36%	-10.40%	-0.48%	1.54%
	MSCI World Index Hedged ($A)	33.33%	-8.41%	2.15%	6.28%
	MSCI World Small Cap ($A)	27.57%	-6.64%	3.28%	7.48%
Emerging	MSCI Emerging Mkts Free	24.02%	0.20%	12.53%	15.47%
	MSCI AC Far East Free (ex Japan)	16.87%	-0.05%	9.34%	12.17%

April proved a mixed bag of results for global equity markets. On a capitalisation basis, small caps outperformed large caps with the MSCI World Small Cap Index returning 3.85% compared to the MSCI World Ex-Australia Index down by 1.36%.

In the US, markets contributed positively to the global index returns with earnings for the first quarter stronger than expected, including a strengthening US financial sector. Unfortunately the persistent issues in Europe and more specifically Greece, continued to offset these gains.

On the always hot topic of emerging markets, Far East Asia, from a regional point of view, outperformed the broader market with the MSCI AC Far East (ex-Japan) delivering a positive 0.66% for April compared the broader MSCI Emerging Markets Index which was down 0.2%.

The MSCI World Index Hedged A$ produced a gain of 0.41% for the month with the strength of the Australian Dollar (AUD) continuing to favour hedged international exposure.

Australian dollar (AUD)

A combination of drivers are contributing to the high Australian dollar and could see it pushed even higher. These include the strong local economy, which is outperforming the other major economies, and Australia's current interest rate advantage.

Big movers in April

Going up this month
Telcos 4.7%

Going down this month
Healthcare -7.8%

A-REITS/Property

	Index/Benchmark	1Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	38.87%	-23.14%	-6.52%	-0.47%
Global	UBS Global Real Estate Inv Acc	55.57%	-13.08%	1.81%	9.12%

The A-REIT sector was buoyed by positive industry reports from both Moody's and S&P. Moody's said it's maintaining its stable outlook for the Australian real estate trust sector, "in view of expectations for a continued gradual recovery in its fundamentals."

However, it also warned that various challenges, such as inadequate debt maturity profiles, remain of concern.

The S&P/ASX 300 A-REIT Accumulation Index gained 3.90% for the month, outperforming the broader equity market.

Similar to Australia, global REITS outperformed the broader equity markets with the UBS Global Real Estate Investors Index gaining 3.94%.

Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite) + Years	3.29%	6.46%	5.77%	5.55%
	Australian 90 Day Bank Bill	3.75%	5.64%	5.82%	5.72%
Global	BarCap Global Agregate Index	-13.76%	2.22%	1.06%	-0.17%
	BarCap Global Ag. Index Hedged	10.51%	8.58%	7.16%	7.28%

Encouraging economic data in April helped bolster the Australian bond market. The UBS Composite Index gained 0.55% for the month and is up 3.29% over the 12 months to April.

The Barclays Capital Global Aggregate Index Hedged A$ gained 0.88% while the unhedged index fell 1.38%. Once again, the strong Aussie dollar is supporting hedged international exposures.