Market Update

INTEGRATED financial solutions

June 2010

- **Markets fall over continued concerns in Europe**
- **Chinese growth charges ahead, prompting inflation fears**
- **Aussie economic growth slows**

What's inside?

The pulse

↓ **Consumer confidence**
8.0% in May

↓ **Business confidence**
8 pts to 5 pts

→ **Interest rates**
Steady at 4.5%

↓ **US unemployment**
9.7%

↑ **US Q1 GDP**
0.8%

↑ **UK Q1 GDP**
1.21%

May market performance

Equity Markets – Price Indices	Index	At Close 31/5/10	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4453.59	-7.9%	16.8%
Japan	Nikkei	9768.70	-11.7%	2.6%
Hong Kong	Hang Seng	19765.19	-6.4%	8.8%
UK	FTSE 100	5188.43	-6.6%	17.4%
Germany	DAX	5964.33	-2.8%	20.7%
US	Dow Jones	10136.63	-7.9%	19.2%
EMU*	Euro 100	2110.35	-5.6%	14.3%
World**	MSCI – Ex Aus	798.46	-7.9%	13.9%
Property – Price Index	**Index**	**At Close 31/5/10**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	ASX A-REITS	862.44	-4.2%	18.2%
Interest Rates		**At Close 31/5/10**	**% Change 1 Month**	**% Change 12 Months**
Aust 90 day Bank Bills		4.87%	0.2%	1.7%
Australian 10 year Bonds		55.37%	49.7%	49.9%
US 90 day T Bill		0.02%	0.0%	-0.1%
US 10 year Bonds		3.30%	-0.4%	-0.2%
Currency		**At Close 31/5/10**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	0.8464	-8.4%	5.6%
British pound	A$/STG	0.5818	-3.9%	17.5%
Euro	A$/euro	0.6875	-1.1%	21.4%
Japanese yen	A$/yen	77.23	-11.0%	1.2%
Trade-weighted Index		67.50	-6.9%	6.6%

* 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

May began with extreme concern over Greece's financial stability, despite EU finance ministers finally agreeing to the bail-out packages announced in April.

Confidence improved after the EU Council added to the original €110bn package with a €750bn joint package courtesy of a partnership with the International Monetary Fund (IMF). However, Germany's subsequent announcement of a temporary ban on naked short selling of 10 major German banks and insurers undermined any confidence brought about by the joint action.

Compounding the situation was renewed concern for the Spanish financial system, brought on by the bail out of a regional bank and the IMF's poor assessment of the Spanish economy.

Despite concerns in Europe, the OECD has raised its global growth forecasts for 2010 and 2011. However, it should be noted that their last growth forecast was completed back in November 2009 and much of the revision simply reflects current market forecasts.

In China, the reserve requirement of banks was raised in May for a third time in a continued attempt to control credit growth and prevent overheating in the economy. The Chinese government appears to prefer this method of controlling credit conditions and placing restrictions on the property market, rather than raising interest rates, in its continued attempts to cool down an overly strong economy that risks higher inflation.

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This strategy is partly due to the commitment towards expansionary growth and partly because the impact of interest rate increases would be too far reaching.

Data out of China points to ongoing solid growth in the economy, with retail sales and industrial production growth still up around 18-19% year on year. Markets are concerned, however, by signs of a jump in Chinese inflation and these fears may see China take further action to slow demand.

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Australian equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	20.72%	-7.26%	6.04%	10.31%
	S&P/ASX 50 Acc.	20.87%	-5.61%	6.46%	10.34%
	S&P/ASX Small Ordinaries Acc.	19.01%	-13.08%	4.69%	10.30%

In addition to European debt concerns, May saw signs that the pace of Australian economic growth is slowing. These factors, coupled with the proposed Resource Super Profit Tax (RSPT), details of which are still being determined, prompted a sell off of Australian equities.

The Australian market fell for the second consecutive month in May, with the S&P/ASX 300 Accumulation Index down 7.5% for the month. The S&P/ASX Small Ordinaries Accumulation Index was down 8.2%, taking the 12 month return below that of their large-cap counterparts.

On a sector basis, financials and industrials were hit particularly hard but have still performed better than most throughout the year. Utilities, telcos and energy shares all moved into 12 month negative territory following the May decline.

Sector	1 Mth	3 Mths	1 Yr
Energy	-6.9%	-0.9%	-1.4%
Materials	-5.9%	-2.7%	13.9%
Industrial	-11.3%	-9.5%	18.7%
Consumer Discretionary	-6.9%	-3.5%	23.0%
Consumer Staples	-1.1%	-3.2%	15.4%
Health Care	-4.1%	-6.0%	7.1%
Financials	-10.4%	-5.8%	25.0%
Info Tech	-8.0%	-5.8%	24.4%
Telcos	-7.5%	-2.0%	-7.2%
Utilities	-7.8%	-6.4%	-2.2%
Property	-4.2%	-0.8%	18.2%

Equity markets

Fears that the sovereign debt crisis would escalate into a Global Financial Crisis sequel drove down market sentiment throughout May.

Equity markets lost significant ground, base metal prices fell, bond yields fell while the prevailing climate of risk aversion saw a continued 'flight to quality' via the USD. In light of this, the AUD fell 10 US cents during the month.

Big movers in May

Going down this month

- ↓ Industrials -11.3%
- ↓ Financials -10.4%

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%

Despite falls in global equities, emerging markets again out performed the rest of the world.

A better-than-expected reporting season and signs of a persistent recovery wasn't enough to insulate US markets from a sell-off driven by European debt concerns.

While initially the fear of contagion was limited to the Eurozone, by May global equity markets as a whole had taken a hit.

Despite the fall, global equity markets remained in positive territory throughout May, with emerging markets again outperforming the rest of the world as represented by the MSCI World ex-Australia Index.

In contrast to April when hedged international share exposure provided a buffer against a weak US dollar (USD), the MSCI World Index Hedged $A fell 8.3% over May, reflecting the AUD's sharp fall against the USD.

Over the long term though, strength in the Australian dollar has favoured international investments that have been hedged.

Does this mean hedged investments are superior to unhedged? No, like equity markets, currency moves in cycles and the large disparity of returns between hedged and unhedged has been the result of unusually high volatility and an uneven global recovery.

Over long periods of time and in normal economic conditions volatility may smoothen out, narrowing the gap between hedged and unhedged investments.

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%

A-REITs and Global property (aka G-REITs) suffered similar fates as equities in May, with Australian and global indices down for the month. The S&P/ASX A-REIT Accumulation Index fell 4.3% and the UBS Global Real Estate Index was down by 5.7%

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%

Cash and fixed interest provided some buffer to the equity market falls, with all indices generating gains for the month.

The Barclays Capital Global Aggregate Index Hedged $A gained 1.88% in May, despite the fall in the Australian dollar, while the unhedged index gained 9.25%.

Australian dollar (AUD)

Last month, the AUD suffered its sharpest fall since the dark days of the Global Financial Crisis, from August to October of 2008. The potential drivers of this fall were:

- risk aversion on fear of another GFC
- sharp falls in commodity prices on concerns that Europe's debt problems could trigger a global recession, and/or
- RBA interest rate expectations moving from an expected increase to a potential decrease.

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