

Market Quarterly Commentary **June - 2009**

Share market strength on the back of “green shoots”

The June quarter was one in which economic activity showed both weaker and stronger indicators. Unemployment continued to rise sharply in some countries with the USA showing unemployment up to 9.5% of the workforce. By contrast some of the manufacturing indices seem to have bottomed and in the USA, at least, the housing market is showing signs of levelling out. Despite these encouraging signs, there is still an expectation that economic growth will remain sluggish for some time with manufacturing export oriented economies such as Germany and Japan struggling as world trade remains depressed.

Following on the sharp three month rally in share markets, recent weeks are showing signs of fatigue in an overbought market and also due to a record amount of capital raisings by many sectors. In Australia the market rose by 11.5% but has underperformed global markets. Sectors that performed well included Consumer Discretionary which has benefitted from the Government stimulus, and industrials, while Utilities and Telcos, underperformed.

Global share markets were strong over the quarter rising by 16.8% in their own currencies (the best quarter since 1998), but returning only 3.8% to unhedged Australian investors. This large differential is due to the Australian dollar enjoying its best quarterly performance since at least 1983, with a gain of 16.4% against the US Dollar bolstered by renewed optimism that the worst of the global economic downturn is over.

The Asian economies have been stronger than the Western developed economies and this has been reflected in the share markets, where Asia ex Japan has significantly outperformed the World Index. Emerging Market country returns were widely divergent, ranging from a 51% positive return for India, to a miserly 6.7% return for South Africa.

Listed Property outperformed the broader share market in the quarter but longer term returns are still well behind. Unlisted Property is still expected to show weakness for the balance of the year.

The Australian Government bond market has just had its worst quarter since Q2 1994, with a return of -2.5%. The market for government bonds is currently torn between higher supply with a need to increase issuance to fund budget deficits, and slow economic growth and falling inflation. Non-government bonds continued to outperform as the worst of the liquidity crisis appears to be behind us.

Looking ahead to the second half of 2009 expectations are not for a repeat of the extreme volatility that was seen earlier in the year, but the watchword remains caution as there are still a host of unknowns including the risk of still weak economic growth, further falls in corporate earnings, and a financial market where confidence remains fragile.

Market Performance - June 2009	Performance (income and capital gain or loss) %	
	Quarter	Year
Australian Shares (S&P/ASX 300 Accumulation)	11.5	-20.3
International Shares (MSCI World ex-Aust)	3.8	-15.7
International Shares (MSCI World ex-Aust) hedged	16.8	-27.9
Listed Property Trusts	15.2	-42.3
Australian Bonds (UBSA Composite Index)	-1.3	10.8
Cash (UBSA Bank Bill)	0.8	5.5
Appreciation of \$A against \$US	16.4	-15.8