

# MARKET UPDATE

## QUARTER ENDED 30 SEPTEMBER 2011

### Commodity prices tumble, but Australian economy holds up well

Commodity prices tumbled over the quarter as Europe's ongoing sovereign debt woes and question marks over the US economy fuelled recession fears and doubts about global growth outlook. Oil prices fell 16.7% in recent months as manufacturing activity slowed in the world's biggest oil consumers—the US and China.

On a more positive note, the Australian economy continues to hold up well relative to its major global counterparts, benefiting in particular from strong Chinese demand for our raw materials and a banking sector with limited exposure to the events in Europe.

#### Australian shares

The Australian share market fell 11.6% amid increasing risk aversion, driven mainly by European sovereign debt concerns and lingering doubts about the sustainability of the US recovery. Other factors were Standard & Poor's decision to cut its credit ratings on US and Italian government debt, uncertainty over the impending carbon tax, and the Reserve Bank of Australia's (RBA) decision to downgrade its near-term growth forecasts.

Metals & Mining and Energy were among the worst-performing sectors during the quarter. By contrast, the Telecommunication Services sector was one of the few sectors to close the period in positive territory, benefiting from its defensive qualities in the face of rising market volatility.

#### International shares

Rising market volatility caused by Europe's escalating sovereign debt crisis continued to weigh on investors' confidence. European markets bore the brunt of the fallout, with Greece (-44.1%), Germany (-30.9%) and France (-29.6%) all trading significantly lower. An 8.0% fall in the euro against the US dollar exacerbated the markets' underperformance.

With a fall of 15.4%, US shares fared better than their European counterparts. Concern over the health of the global recovery was enough to destabilise the more economically-sensitive emerging markets while Japan proved a relative safe haven, supported in part by a 5.0% rise in the yen.

#### Property

Europe's ongoing sovereign debt woes and slowing global economic growth led to all regions performing poorly, with the global market returning -15.6%\*\* in hedged Australian dollar terms. Particular contributory factors were weak employment conditions in the UK (-20.5%), in Asia (-19.1%) fears of a sharp slowdown in China, in continental Europe (-17.0%) the region's debt crisis and macroeconomic uncertainty and, in the US (-14.9%), slower jobs growth and the possibility of a 'double-dip' recession.

The more defensive Australian market was somewhat insulated from regional macroeconomic issues.

#### Bonds

Longer-dated government bond yields fell as Europe's escalating sovereign debt crisis and fears the US economy may fall back into recession saw investors sell 'risk' assets in favour of the relative safety of major government debt. However, yields rose late in the quarter amid reports that European officials were actively working toward a plan to resolve the region's debt crisis.

Australian bonds returned 4.6% while yields closed the quarter significantly lower. Bank bill yields also trended lower on expectations that the next move in domestic interest rates will be down.

The Reserve Bank of Australia left the official cash rate at 4.75% throughout the period, and is likely to sit on the sidelines until it can more accurately gauge the impact of global events on the domestic economy.

\*Thompson Reuters/Jefferies CRB Index.

\*\*FTSE EPRA/NAREIT Developed Real Estate Index Net TRI.

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Performance to 30 September 2011	3 mth %	1 yr %	3 yr % pa	5 yr % pa	10 yr % pa	Index used
Australian shares	-11.6	-8.7	-0.1	-0.7	7.2	S&P/ASX 300
International shares (\$A hedged)	-14.3	-1.6	-0.1	-2.2	3.9	MSCI World Net Dividends Reinvested Accumulation Index (\$A Hedged)
International shares (\$A unhedged)	-8.1	-4.7	-6.8	-7.3	-3.1	MSCI World Net Dividends Reinvested Accumulation Index
Australian listed property	-8.1	-6.3	-11.7	-13.6	0.8	S&P/ASX 300 A-REIT
Australian fixed interest	4.6	9.0	7.8	7.0	6.2	UBSA Composite Bond All Maturities
International fixed interest	4.3	7.8	10.3	8.5	7.8	Barclays Capital Global Aggregate HDG AUD
Cash	1.2	5.0	4.5	5.6	5.4	UBSA 90 Day Bank Bill

Source: Russell Investments

Note: Past performance should not be considered a guide to future performance.

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