

Market Commentary

October - 2009

Financial markets pause for breath

The economic picture was generally mixed in all regions, but there was just enough good news to show that the 'green shoots' were still alive and growing. The biggest question is whether the end of the stimulus packages will coincide with a reversal of the recent growth recovery. World equity markets were mostly driven by the start of earnings season in the US which showed a similar pattern in earnings as the last quarter – earnings holding up well through cost cutting but sales growth was minimal. Overall equity markets rallied for much of the month before investors became nervous and profit taking saw the markets fall back below their September level. Bond markets across the world were affected by the Reserve Bank's decision to raise rates in October – the first major central bank to do this and generally yields drifted up as investors sold in anticipation of further rate rises.

The extremely sharp rise in share prices around the world came to a halt in the second half of October. For the month, Australian shares fell by 2.1%, breaking a seven month rally, with defensive sectors such as Consumer Staples, Utilities and Telcos again coming to the fore. Smaller Companies and Resources were a little stronger than the broad market, but except for REITs (listed property trusts) which slipped by 9%, the range of outcomes for the different sectors was remarkably small. The share market continues to see large capital raisings while the Myer float in early November saw the first private equity float for some time with a host of others waiting in the wings.

Global share markets also slid, with unhedged shares falling by 4.1% over the month, however some further strength in the Australian Dollar saw hedged investor returns fall by less than 2%. Global activity remains mixed with US and European unemployment at over 10% acting as a negative for investor confidence, while the manufacturing sector continues to recover off a low base. As with Australia, consumer related stocks held up better as the high flying Financial sector saw some profit-taking. Utilities and IT also underperformed. The major European markets of Germany, France and Italy sagged during the month as their exports continue to struggle. Emerging market shares also fell but by less than developed markets. China continues to lead the way with another 6.5% rally to be 82% higher over the past year.

Bond market returns were largely flat in October as investors tried to come to grips with opposing forces in an apparent improvement in economic activity but continuing low inflation. In Australia the solid growth in the domestic economy has seen the Reserve Bank start to raise rates, however other central banks are not likely to follow suit until well into 2010 at the earliest.

The latter part of October reflected the uncertainties besetting the developed economies, with share markets starting a long overdue retreat from the highs, bond markets effectively marking time, and the pace of credit spread contraction slowing. Some commentators even forecast property valuations to possibly bottom in the current quarter. The easy money has been made, and the outlook for share and bond markets from now on may rely on economic and profit growth for shares, and the level of defaults for non-Government bonds. Opportunities are almost certain to present themselves from time to time, and investors will need to be flexible and patient until these appear.

Source: JANA Investment Advisors Pty Ltd AFSL 230693

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