

## Market Commentary

July - 2009

### Equity markets continue to roar ahead

The new financial year has kicked off with a roar. Further evidence of the 'green shoots' economic recovery, a resurgence of risk appetite as a backlash against effective interest rates of close to zero in overseas economies, has seen investors chase market returns on a view that prices reflect good value. July 2009 saw the strongest monthly performance since March 2000 with both Australian and Global shares rallying strongly. The Australian share market rose by 7.3% in July to be up almost 27% in the past 5 months, while unhedged global shares rose by 5.5%.

The Australian share market has been characterised in recent months by record levels of capital raisings across a range of sectors with all of the major banks raising equity, while many of the listed property trusts have also made attractive issues as a means of recapitalising themselves. The best performing sectors included Financials, Media stocks – largely newspapers, and Discretionary Retail such as David Jones and JB Hi Fi, while Healthcare Utilities and Telcos remain unloved.

Global shares in all regions enjoyed solid rallies, with the best performance in Europe coming from Germany and France, while Asian markets such as Hong Kong, Korea and Singapore all recovered further. In the USA the S&P 500 continues to perform well and is now 41% off the bottom seen in March – the fastest rally since 1938. Although these are good returns hedged shares performed even better, as the Australian dollar continued to rise to a recent peak of over USD84c. This rise has been driven by better economic growth, rising commodity prices and relatively high interest rates.

Listed Property Trusts underperformed the broader share market in July, rising by only 2.4%, as some of the heat came out of the sector, and in unlisted property some early indications of returns showed little new in the way of revaluations.

The bond markets were mixed with Australian bond returns in line with cash, while hedged overseas bonds were more positive with falling yields reflected in a better performance from government bonds and non-government bonds continuing to add value.

Despite the strong run-up in share markets it is impossible to say that there are no clouds on the horizon, as economic growth remains weak, the US consumer is still cautious and unemployment continues to rise but at a slower pace than seen earlier in the year. Shares are no longer cheap and at best are fair value, and much will depend on the

earnings results from the corporate sector over the balance of 2009 to give an indication of the outlook from here on in.

**Source:** JANA Investment Advisors Pty Ltd AFSL 230693

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