

## Market Commentary

June - 2009

### Mixed fortunes for June

The month of June was one in which economic activity was mixed with some weaker and also some stronger indicators. Unemployment continued to rise sharply in some countries with the USA showing unemployment up to 9.5% of the workforce while other regions are also showing rising unemployment levels. By contrast some of the manufacturing indices seem to have bottomed and the manufacturing surveys are pointing to some improvement in activity, while in the USA, at least, the housing market is showing signs of bottoming. Despite these encouraging signs, there is still an expectation that economic growth will remain sluggish for some quarters, 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 with the solid positive returns (4.0%) for June coming largely in the first half of the month, and despite a record amount of capital raisings by many sectors. Sectors that performed well included Financials and Telcos, while Resources were flat as commodity price rises came to a halt. Smaller companies again underperformed.

Global share markets were little changed over the month with falls in the Energy and Materials sectors partially offset by better performance by Consumer and Healthcare related shares. European share markets underperformed, led down by the big markets of Germany, France and the UK, but the Japanese share market showed some resilience at last. Emerging Market country returns were widely divergent, ranging from a 25% positive return for Argentina, to a negative 13% return for Russia. Global share markets were again disturbed by currency fluctuations, with higher commodity prices and relatively high interest rates leading to further strength in the Australian dollar and again detracting from returns to unhedged Australian investors.

Listed Property Trusts again outperformed the broader share market in June, but longer term returns are still well behind. There has been a resurgence of interest in this sector as share prices remain depressed. Unlisted Property Trusts are still expected to show weakness for the balance of the year and June returns are likely to be again weaker as property valuations are revised downwards.

The bond markets have remained weak with a further rise in government bond yields which have been reacting to signs of economic recovery. Australian government bonds had a negative return for the month but global government bonds fared better as yields fell from the highs of May. Non-government bonds continued to outperform, as their spreads to Government bonds contracted further and as liquidity in these markets improved.

Looking ahead to the second half of 2009 expectations are for no 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 due to defaults and bankruptcies, and a financial market where confidence remains fragile.

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

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