Market Update

August 2012

- **Most major markets finished up over the month**
- **The UK economy remains in recession**
- **Reserve Bank of Australia keeps rate on hold in August**

What's inside?

July market performance

Equity Markets – Price Indices	Index	At Close 31/07/12	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4289.38	3.72%	-4.69%
Japan	Nikkei	8695.06	-3.46%	-11.57%
Hong Kong	Hang Seng	19796.81	1.83%	-11.78%
UK	FTSE 100	5635.28	1.15%	-3.09%
Germany	DAX	6772.26	5.55%	-5.40%
US	Dow Jones	13008.68	1.00%	7.13%
EMU*	Euro 100	2202.23	4.16%	-2.02%
World**	MSCI – Ex Aus (Gross)	886.70	1.14%	-0.44%
Property – Price Index	**Index**	**At Close 31/07/12**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	912.59	5.52%	17.38%
Interest Rates		**At Close 31/07/12**	**At Close 30/06/12**	**At Close 29/07/11**
Aust 90 day Bank Bills		3.58%	3.49%	5.07%
Australian 10 year Bonds		3.02%	3.04%	4.80%
US 90 day T Bill		0.10%	0.09%	0.10%
US 10 year Bonds		1.47%	1.65%	2.80%
Currency* **		**At Close 31/07/12**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	1.05	2.50%	-4.53%
British pound	A$/STG	0.67	2.69%	-0.09%
Euro	A$/euro	0.85	5.40%	11.58%
Japanese yen	A$/yen	82.07	0.32%	-2.87%
Trade-weighted Index		78.90	3.14%	0.64%

* Top 100 European stocks trading on the FTSE ** Price Index – Source: www.msci.com
*** All foreign exchange rates rounded to two decimal places
Source: Iress Market Technology
Past performance is not a reliable indicator of future performance.

Global economies

Monetary policy was a common theme in July, with the United Kingdom, Europe and Australia all considering their options.

With the suggestion that many major economies around the world are slowing, the International Monetary Fund (IMF) revised the world growth outlook down to 3.5%. As part of this review, forecasts for the world's largest economies, US and China, were downgraded to 2% and 8% respectively for 2012.

US Economy

The US economy continued to concern global markets, as the unemployment rate remained static at 8.2%, seemingly resilient to recovery.

Confirming this, the Federal Reserve (Fed) committee maintained the view that the US economy is still experiencing a slow recovery. While not ideal, most Fed members believe further quantitative easing (QE) should only be necessary if the economy loses momentum.

This decision was further supported at the 1 August Fed meeting, where the committee announced no further QE would take place. The Dow Jones Industrial index reacted to this decision with a fall in the day's trading.

Ben Bernanke, chairman of the Fed, highlighted his concerns with the current situation, indicating his support for further QE. However, inflation figures will also need to be taken into consideration.

On the data front, there were mixed results in some of the key sectors. US retail sales continued to fall (0.5% in June), while on the flipside, housing remains encouragingly stable. However, a general reduction in consumer confidence and consumption, indicators the US economy might be losing momentum, further strengthened Bernanke's view on additional QE.

Europe

While Spain remains at the forefront of Europe's concerns, the United Kingdom's economy was also a key focus for investors last month.

Early in July, the UK announced further QE in the form of bond purchases. This decision was the result of a continual decline in gross domestic product (GDP) for the third quarter in a row, a technical recession.

Further reinforcing the UK's issues, the IMF in its review of world economies, downgraded the UK's GDP growth forecast to 0.2%. This was one of the largest downward revisions amongst the larger economies this year.

Following the UK GDP shrinkage in the second quarter, the possibility of monetary easing in the form of interest rate cuts is becoming very likely.

The European Central Bank (ECB) on the other hand, took action and cut rates early in July. While this was a positive move, ECB president, Mario Draghi, questioned the potential impact it will have on the economies in the Eurozone.

Staying in Europe, Spain continued to dominate news, with several Spanish regions requesting financial assistance from the government as unemployment edged closer to 25%.

The ongoing situation in Spain has sparked fears that the Spanish government could default, which would cause government bond yields to rise to new heights. All eyes are once again on the ECB, as markets look for intervention that will assist Spain and other Eurozone economies in refinancing their debt.

However, Draghi's comment, "the ECB is ready to do whatever it takes to preserve the Euro", provided a glimmer of hope for European markets late in the month.

Australia

Back at home, interest rate cuts are back on the agenda, as markets looked to inflation figures to drive a rate cut.

However, in recent announcements the Reserve Bank of Australia (RBA) indicated low inflation would not warrant a rate cut. This rang true at the August meeting, as rates remained on hold.

RBA Governor Stevens defended Australia's economic strength and foundations against claims they were purely a result of 'luck'.

Stevens went on to say the reasons for Australia's stable economy during these tumultuous times, was a combination of careful supervision and regulation of the banking sector and the proactive use of monetary and fiscal stimuli. However, he admitted Australia's strength comes in the form of its abundance of natural resources and geographic proximity to Asia.

On the data front, June retail sales figures saw a rise of 1.0%. These results may have been boosted by the $2 billion government schemes of the Clean Energy Advance and the Education Tax Refunds. It is uncertain how much the government boosts or interest rate cuts from earlier in the year affected these results.

In other domestic news, housing data appeared to be stabilising with prices rising 0.6% for the month. Recent interest rate cuts have had a clear impact on housing, as well as a minor improvement in affordability.

Equity markets

Many of the major indices finished higher for the month in July, with the exception of the Japanese Nikkei, losing 3.46%. Germany's DAX was by far the best performing of the majors, closing 5.55% higher.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	0.75%	4.52%	-2.96%	4.34%
	S&P/ASX 50 Acc.	4.28%	5.43%	-1.57%	4.98%
	S&P/ASX Small Ordinaries Acc.	-15.94%	0.39%	-8.73%	1.81%

The Australian market was up last month, with the S&P/ASX All Ordinaries gaining 3.72%, outperforming most major markets.

Over the year, the S&P/ASX All Ordinaries index has remained in negative territory, but saw an improvement in July to close at -4.69%. On a positive note, the S&P/ASX 300 and the S&P/ASX 50 Accumulation indices are posting gains over 12 month and 3 year periods to 31 July.

At the sector level, Telcos gained the most, with Financials also performing well.

Consumer Staples, Utilities and Property all saw gains last month, while Materials was the only sector to finish in the red.

Telcos continue to dominate as the best performing sector, posting a positive return of 44.8% over the year to 31 July.

Big movers this month

↑ Telcos +8.3%

↓ Materials -0.7%

Sector	1 Mth	3 Mths	1 Yr
Energy	2.6%	-13.7%	-14.8%
Materials	-0.7%	-14.7%	-27.4%
Industrial	0.1%	-12.7%	-3.9%
Consumer Discretionary	2.3%	-2.7%	4.7%
Consumer Staples	6.8%	7.4%	14.5%
Health Care	4.4%	6.5%	21.1%
Financials (ex Property)	7.2%	4.1%	15.6%
Info Tech	4.9%	-3.5%	2.0%
Telcos	8.3%	12.4%	44.8%
Utilities	5.8%	6.8%	25.5%
Property	5.6%	8.8%	25.2%

Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	1.05%	7.78%	-2.52%	2.85%
	MSCI World Index Hedged ($A)	1.63%	8.40%	-3.53%	1.85%
	MSCI World Small Cap ($A)	-3.57%	11.21%	-1.75%	3.31%
Emerging	MSCI Emerging Mkts Free	-10.16%	-1.43%	-4.73%	5.32%
	MSCI AC Far East Free (ex Japan)	-6.93%	-0.82%	-3.95%	4.72%

In the US, the Dow Jones Industrial Average increased by 1% in July, underperforming other majors, but further cementing its position as the best performing major, returning 7.13% over the 12 months to 31 July.

In the United Kingdom, markets responded well to the latest round of QE, and finished with a 1.15% gain for the month.

The German DAX proved to be the strongest of the major indices, returning 5.55%. This result also helped the Euro 100, the 100 most highly capitalised blue chip companies in Europe, to gain 4.16% during the month.

The only major index to lose ground was the Japanese Nikkei returning -3.46%.

Hong Kong's Hang Seng posted a gain of 1.83%. However, over the year, both the Hang Seng and the Nikkei have been amongst the worst performers losing 11.78% and 11.57% respectively.

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	25.21%	13.39%	-10.82%	-3.06%
Global	UBS Global Investors Index	11.17%	12.66%	-4.65%	-0.71%

Australian listed property once again outperformed global property, with the S&P/ASX 300 A-REIT Accumulation Index increasing by 5.55%. In contrast, the UBS Global Investors Index, measuring performance of global property, returned only 0.69% in July.

On a 12 month and 3 year comparison, Australian listed property is outperforming global property, however is still underperforming over longer timeframes.

Australian dollar (AUD)

In July the Australian Dollar (AUD) gained 2.5% against the US Dollar (USD). Over the course of July, the AUD remained above parity with the USD and is currently trading around 1.05 US dollars.

Gains were also achieved against the Euro, with the AUD purchasing 85 Euro cents at 31 July. The gain is in part due to the ongoing difficulties in the European economy and the recent rate cuts by the ECB.

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	10.97%	8.59%	8.10%	6.84%
	Australian 90 Day Bank Bill	4.32%	4.47%	5.04%	5.33%
Global	BarCap Global Aggregate Index	6.27%	-2.32%	2.22%	0.27%
	BarCap Global Ag. Index Hedged	11.72%	10.01%	9.68%	8.07%

Australian bonds last month delivered a positive performance with the UBS Composite Bond All Maturities Index gaining 0.37%.

Hedged global bonds, as measured by the Barclays Global Aggregate Index Hedged, also performed well with an increase of 1.62%, while the unhedged equivalent once again suffered in part due to the gains in the Australian dollar, posting a negative return of -1.47%.

Returning 11.72%, hedged global bonds are now outperforming Australian bonds (10.97%) on a 12 month comparison.

Unhedged global bonds are still underperforming Australian bonds, with a gain of 6.27% for the last 12 months.