Market Update

January 2013

- **US 'Fiscal Cliff' averted for the moment, but US public debt issues still exist**
- **Australia's November trade balance deteriorated to a deficit of $2.637 billion**
- **Excellent investment returns for the year to 31 December 2012**

What's inside?

December market performance

Equity Markets – Price Indices	Index	At Close 31/12/12	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4664.59	3.24%	13.47%
Japan	Nikkei	10395.18	10.05%	22.94%
Hong Kong	Hang Seng	22656.92	2.84%	22.91%
UK	FTSE 100	5897.81	0.53%	5.84%
Germany	DAX	7612.39	2.79%	29.06%
US	Dow Jones	13104.14	0.60%	7.26%
EMU*	Euro 100	2324.90	1.23%	10.54%
World**	MSCI - Ex Aus (Gross)	941.92	1.72%	12.99%
Property – Price Index	**Index**	**At Close 31/12/12**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	958.87	1.28%	25.08%
Interest Rates		**At Close 31/12/12**	**At Close 30/11/12**	**At Close 30/12/11**
Aust 90 day Bank Bills		3.11%	3.26%	4.48%
Australian 10 year Bonds		3.27%	3.16%	3.67%
US 90 day T Bill		0.05%	0.08%	0.01%
US 10 year Bonds		1.76%	1.62%	1.88%
Currency* **		**At Close 31/12/12**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	1.04	-0.31%	1.74%
British pound	A$/STG	0.64	-1.79%	-2.74%
Euro	A$/euro	0.79	-1.89%	-0.20%
Japanese yen	A$/yen	90.12	4.82%	14.73%
Trade-weighted Index		77.10	-0.13%	1.72%

* 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

The US government has averted a 'fiscal cliff' scenario of tax hikes and spending cuts, which many economists have indicated could have pushed the US back into recession.

Over in the East, while headwinds from the global economy have remained, economic indicators show China's economy continued its slow recovery in December. The Chinese economy also experienced much needed growth in production as well as a small increase in retail sales.

Staying in the Orient, Japan's newly appointed Prime Minister, Shinzo Abe, has made reviving the economy his top priority after his Liberal Democratic Party's election win last month. Abe promised to combine aggressive monetary easing with fiscal spending to encourage investment and spur growth.

US Economy

The US was on the edge of the so called 'fiscal cliff' last month. However the potential crisis was averted on 1 January 2013, with both the US Senate and House of Representatives agreeing to a less severe taxation and government spending policy. However, despite this outcome, uncertainty in global financial markets remains.

If the cliff had not been avoided, it was estimated that US economic growth would have fallen by 4%, sending the US economy into recession.

So what do the revised measures mean for the US? The House of Representatives has confirmed a more modest increase in taxation levels, from 35% to 39.6%, on incomes in excess of $400,000. It has also delayed the proposed cuts to government expenditure by two months.

While these measures are encouraging, US public debt issues still exist and are likely to return to the forefront when negotiations to raise the debt ceiling take place in February.

Last month's US employment figures showed the unemployment rate remained unchanged at 7.8%, despite improvement in a range of sectors including health care, food and beverage services, construction, and manufacturing.

Europe

As the economic crisis in Europe persists, the gap between regional labour markets continues to grow.

Austria (4.5%), Luxembourg (5.1%), Germany (5.4%) and the Netherlands (5.6%) recorded the lowest unemployment rates, while Spain (26.6%) and Greece (26.0% in September 2012) produced the highest rates.

Economic sentiment in the Eurozone improved in December, with the Economic Sentiment Indicator up 1.3 points to 87. While this increase was welcome, the ideal would be a rating over 100. The increase was mainly due to improved consumer sentiment across all sectors with the exception of retail trade.

Australia

The November trade balance (imports vs. exports) showed a deficit of $2.637 billion. Ultimately this means that as a nation we're importing too much compared to our exports.

What's more, the deficit exceeded consesus market forecasts by $337 million, as exports only rose by 1% and imports by 2%.

On the employment front, the Australian Bureau of Statistics (ABS) job vacancies for the quarter to November, showed a large fall of 6.9%. This figure shows that the pace of the jobs 'dry up' is accelerating, and is a further indication that unemployment is set to rise in 2013.

Taking a look at retail spending, in the 12 months to November 2012, Australians spent $12.6 billion on online retail. This is equal to 5.7% of traditional bricks & mortar retail (excluding cafés, restaurants and takeaway food) for the year to October 2012.

The NAB Online Retail Sales Index surged in November – rising to 241 points (compared with 209 points in October). It's important to note that November is the peak month for online retail sales, with consumers allowing enough time for delivery of their purchases prior to Christmas.

Equity markets

All major markets posted positive returns during December, with Japan again being the standout, posting a spectacular return of 10.05%.

Of the majors however, the underperformers for December were the UK and the US, posting 0.53% and 0.60% respectively.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	19.74%	2.80%	-1.81%	4.46%
	S&P/ASX 50 Acc.	22.02%	3.72%	-0.48%	5.25%
	S&P/ASX Small Ordinaries Acc.	6.58%	-1.81%	-6.94%	1.51%

The Australian market was a solid performer last month, with the S&P/ASX All Ordinaries gaining a very respectable 3.24%.

Over the year to 31 December, the S&P/ASX All Ordinaries Price Index return was very good, providing investors with a capital gain of 13.47% before dividends.

For 2012, the S&P/ASX 300 Accumulation Index posted a pleasing return of nearly 20%, while the S&P/ASX 50 Accumulation Index performed even better, returning 22%.

At the sector level, all sectors posted positive returns for December, with Industrials, Materials and Utilities coming out on top, returning 5.8%, 4.8% and 4.1% respectively.

The poorest performing sector during December was Information Technology, which only managed a returned 0.5%.

Over the 12 months to 31 December, Health Care and Telcos proved the best sectors to be invested in, with both sectors returning over 40%.

The only sector to be in negative territory over the 12 month period was Energy, which lost 0.5% for the year. The Materials sector also underperformed for the year, but still provided a small return of 2.7% for the year to December.

Big movers this month

↑ Industrials +5.8%

↑ Materials +4.8%

Sector	1 Mth	3 Mths	1 Yr
Energy	1.4%	-0.3%	-0.5%
Materials	4.8%	6.4%	2.7%
Industrial	5.8%	8.5%	11.1%
Consumer Discretionary	2.6%	8.9%	22.1%
Consumer Staples	1.3%	5.2%	26.7%
Health Care	2.6%	10.6%	47.5%
Financials (ex Property)	3.4%	7.2%	29.0%
Info Tech	0.5%	1.5%	23.8%
Telcos	1.5%	11.4%	42.1%
Utilities	4.1%	7.1%	22.1%
Property	2.9%	7.0%	32.8%

Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	15.71%	6.34%	-1.30%	2.44%
	MSCI World Index Hedged ($A)	16.05%	6.98%	-1.99%	1.56%
	MSCI World Small Cap ($A)	17.81%	9.93%	1.99%	3.15%
Emerging	MSCI Emerging Mkts Free	16.74%	-0.23%	-4.18%	4.09%
	MSCI AC Far East Free (ex Japan)	20.49%	2.47%	-2.59%	4.94%

The MSCI World Index was up by 1.72% in December. This was a result of most major markets posting solid returns, with the exception of the UK and the US.

The UK's FTSE 100 was the poorest performer of the majors last month, but still managed to add 0.53% by the close of the month. This result meant the FTSE 100 finished the 2012 calendar year with the lowest performance of the majors, returning only 5.84%.

In mainland Europe, the German DAX posted a gain of 2.79% for December, with the Euro 100 posting around 1.23%.

The standout performer for December was Japan's Nikkei which had another spectacular month, returning 10.05%, after returning 5.8% in November. The last two months of the year really boosted the market's yearly figures, and resulted in the Nikkei closing 2012 up by nearly 23%, an excellent result.

Australian dollar (AUD)

In December, the Australian Dollar (AUD) gained even more ground against the Japanese Yen, gaining 4.82% over the month to close at 90.12 Yen. This means the Australian dollar gained nearly 15% against the Yen in 2012.

However, while gaining ground against the Yen, the AUD lost 0.31% against the US dollar during December, closing at US$1.0394.

Against the Euro, the AUD lost 1.89% during December to close the year at 0.7878 Euro. This meant the AUD lost 0.20% against the Euro during 2012.

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	32.79%	9.09%	-8.66%	-2.73%
Global	UBS Global Investors Index	22.15%	9.04%	-1.96%	-0.84%

The Australian listed property market gained ground in December, but underperformed the broader Australian equity market. However for the year to 31 December, Australian property (including dividends) was the best performing asset class, returning a stellar 32.79%.

Last month the S&P/ASX 300 A-REIT Accumulation Index slightly underperformed the UBS Global Investors Index, however both indices produced a reasonable return.

Over 2012, Australian listed property outperformed global property, however global property continues to outperform over the longer term.

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	7.70%	8.35%	8.26%	6.88%
	Australian 90 Day Bank Bill	3.76%	4.43%	4.73%	5.19%
Global	BarCap Global Aggregate Index	3.01%	0.25%	1.97%	0.69%
	BarCap Global Ag,. Index Hedged	9.66%	9.82%	9.34%	8.42%

Australian bonds posted a small gain during December, with the UBS Composite Bond All Maturities Index gaining 0.18%.

Hedged global bonds, as measured by the Barclays Global Aggregate Index Hedged, posted a moderate gain of 0.34% in December, while the unhedged equivalent posted a small gain of 0.16%.

On a 12 month comparison, hedged global bonds outperformed Australian bonds, returning 9.66% against 7.70%.