

Market Review – month ending August 2010

Markets continued their volatile ride in August, with negative investor sentiment returning in response to economic concerns. The mood in investment markets was driven by weak data coming out of the US, particularly the housing starts data. In the US, the Fed indicated a willingness to start another round of stimulus measures if required. Domestically, the unknown outcome of the Australian Federal Election added to share market uncertainty. As a result, the return to risk assets during July was short lived, with share markets modestly weaker in August.

Market Returns to August 2010	Index Performance (%)			
	Month	3 Months	FYTD	1 Year
Australian Shares				
S&P/ASX 300 Accumulation Index	-1.08	0.61	3.35	2.07
International Shares				
MSCI World ex-Australia Index, Unhedged in \$A, Gross	-2.07	-5.40	-1.34	-3.52
MSCI World ex-Australia Index, Hedged in \$A, Gross	-3.05	-1.26	2.67	5.44
Listed Property				
Mercer Unlisted Property Funds Index (Pre Tax)	0.50	2.05	1.01	4.05
S&P/ASX 300 Property Trusts Accumulation Index (GICS Sector)	3.52	3.59	4.66	5.97
FTSE EPRA/NAREIT Global Real Estate Index, Unhedged in \$A, Gross	1.15	0.74	3.45	9.03
Australian Bonds				
UBS Composite Bond Index (0+ years)	1.92	3.59	2.20	9.10
International Bonds				
Citigroup World Government Bond Index, Hedged in \$A	2.35	4.45	3.30	10.62
Barclays Capital Global Aggregate Index, Hedged in \$A	2.08	4.54	3.25	11.97
Cash				
UBS Bank Bills Index	0.41	1.23	0.83	4.21
Exchange Rates				
\$A to US Dollar	-1.68	6.12	5.38	5.57
Australian Trade Weighted Index	-0.55	2.22	2.62	4.12

► Financial Markets

Reporting season in Australia delivered mixed results, with the Telstra dropping sharply following disappointing earnings guidance and uncertainty surrounding the election outcome. Amid the uncertainty, investors were quick to return to the defensive Consumer Staples, Industrials and Utilities sectors. Global share markets in local currency terms ended the month down -3.1%, and a depreciation in the Australian dollar saw unhedged investors return -2.1% for the month. At an aggregate level, emerging markets outperformed developed markets, as negative US economic data served to confirm existing expectations that emerging markets would continue to show much stronger economic growth.

In World bond markets, the prices of government bonds continued to rally as investors sought protection from uncertain economic outcomes. However, during the month, the Fed's indication that it was willing to undertake a second round of quantitative easing, if required, led to a modest reversal in the yields of Treasuries. The Australian government bond market followed a similar trend. Credit underperformed government bonds, given the concerns about global growth. Against this backdrop, the RBA continued to keep cash rates on hold during August.

Investors remain unconvinced that the economic recovery will continue in developed markets, but are looking to emerging markets to drive world global economic growth. Amidst this uncertainty, the market continues to react to short term macro announcements, and investors remain on watch for any signals that may help to indicate the future path that the global economy is likely to take.

(Catholic Super wishes to thank JANA Investment Advisors for this monthly Market Commentary)