

Market Review – month ending December 2009

Financial markets typically look to the future for pricing of assets, and the month of December was indicative of the positive investor sentiment going into 2010.

Market Returns to December 2009	Index Performance (%)		
	Month	3 Months	1 Year
Australian Shares			
S&P/ASX 300 Accumulation Index	3.69	3.37	37.59
International Shares			
MSCI World ex-Australia Index, Unhedged in \$A, Gross	3.64	2.20	0.34
MSCI World ex-Australia Index, Hedged in \$A, Gross	4.01	5.49	27.45
Listed Property			
S&P/ASX 300 Property Trusts Accumulation Index (GICS Sector)	3.40	-4.99	9.56
FTSE EPRA/NAREIT Global Real Estate Index, Unhedged in \$A, Gross	5.46	2.45	7.18
Australian Bonds			
UBS Composite Bond Index (0+ years)	-0.38	1.03	1.73
International Bonds			
Barclays Capital Global Aggregate Index, Hedged in \$A	-0.62	1.11	8.03
Cash			
UBS Bank Bills Index	0.32	0.88	3.47
Exchange Rates			
\$A to US Dollar	-1.75	1.90	28.99
Australian Trade Weighted Index	0.43	2.93	26.26

► Economic Developments

Recent months have seen some recovery in world economic growth off a depressed base. Manufacturing production has started to recover and business confidence appears to be rising. This improvement in activity is still spotty, with emerging market economies, led by China, faring best, followed by the commodity countries such as Brazil, Canada and Australia. Weakest of all are the old 'developed' economies, especially those with stagnant populations such as Japan and Western Europe where growth remains weak and unemployment high. It is no surprise that consumer confidence in most of these regions remains low with minimal pay rises and a continued threat to jobs.

▶ **Australian Shares**

Australian shares rose by 3.7% in December to finish off a sterling year with a rise of nearly 38%. Small Companies outperformed rising by 4.3% over the month and 57% for the year. All sectors enjoyed some of the rally, but Telecommunication and Consumer Staples lagged behind other sectors. The latter part of 2009 saw a resumption of merger and acquisition activity, which also pushed selective stocks higher.

▶ **Overseas Shares**

Unhedged Global share market returns were in line with Australian shares up 3.6% for the month, but are largely flat over the 12 month period, due to the rising value of the Australian dollar (\$A), offsetting the recovery in prices. Hedged investors did better with prices rallying by a more respectable 27.5% over the year. During the month the best performing sectors included Information Technology and Consumer Discretionary, while Financials underperformed as banks were largely unchanged for the month. Emerging Markets again outperformed, with Korea and Russia leading the pack but Chinese shares marked time for once.

▶ **Property**

Listed Property Trusts returned 3.4%, marginally underperforming the broader equity market, as investors show renewed confidence that the worst of the commercial property market is now behind us. Some larger property transactions occurred late in the quarter providing comfort that the falling valuations may be near an end.

▶ **Fixed Interest**

Bond markets had negative returns in December as yields on government bonds rose sharply late in the month. Credit (non-government bond) margins have stopped contracting recently. Credit margins are still generally high compared to historic averages, but far below the distressed levels seen during the GFC.

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