

Market Review – month ending December 2010

December saw the calendar year finish off with a rise in share prices both in Australia and globally. The second round of quantitative easing by the Federal Reserve Bank and renewed tax stimulus measures propped up economic forecasts for 2011, with hopes that the consumer will start to spend, company earnings will grow, and employment will improve. Recent economic data has been more positive, and comments by US Federal Reserve members have been notably more optimistic in recent months. However, fears of Eurozone sovereign-debt problems remain with Moody's cutting Ireland's debt rating by five notches and placing Spain and Greece on possible review for downgrade.

Market Returns to December 2010	Index Performance (%)			
	Month	3 Months	FYTD	1 Year
Australian Shares				
S&P/ASX 300 Accumulation Index	3.77	4.65	13.34	1.90
International Shares				
MSCI World ex-Australia Index, Unhedged in \$A, Gross	0.35	2.99	1.98	-1.52
MSCI World ex-Australia Index, Hedged in \$A, Gross	5.87	9.49	20.29	13.62
Listed Property				
Mercer Unlisted Property Funds Index (Pre Tax)	0.50	1.86	4.11	8.66
S&P/ASX 300 Property Trusts Accumulation Index (GICS Sector)	1.20	-1.17	2.55	-0.68
FTSE EPRA/NAREIT Global Real Estate Index, Unhedged in \$A, Gross	-0.54	0.27	3.60	5.64
Australian Bonds				
UBS Composite Bond Index (0+ years)	0.03	-0.19	1.08	6.04
International Bonds				
Citigroup World Government Bond Index, Hedged in \$A	0.00	-1.09	2.16	7.93
Barclays Capital Global Aggregate Index, Hedged in \$A	-0.02	-0.48	2.96	9.28
Cash				
UBS Bank Bills Index	0.42	1.24	2.46	4.66
Exchange Rates				
\$A to US Dollar	6.88	5.87	21.36	13.98
Australian Trade Weighted Index	3.82	4.01	12.68	8.75

► **Financial Markets**

Favourable economic news early in the month such as the RBA's decision to keep rates unchanged at 4.75% and the extension of Bush-era tax breaks in the US saw the market post early gains. However heavy rains and flooding in Qld which caused a number of miners and other companies exposed to the sector to flag possible downgrades contributed to a late sell off. The Australian market finished the year on a positive note, up +3.8% for December. IT, Energy and Materials sectors performed well, but Consumer related stocks were weaker reflecting subdued retail sales expectations. Utilities (again) and Telcos, also lagged the broader market. Listed Property Trusts at last found some relief with a positive return for the month, but they have continued to underperform both the ASX 300 Index and global REITS.

World stocks rallied to some of their highest levels in December as the S&P500 had its best rally in nearly two decades. Global share markets rose by 5.9% in local currency terms but with the Australian dollar rising to above parity with the US dollar, and to record highs against the Euro and Sterling, the return to unhedged investors was only 0.4%. Consumer related sectors tended to underperform, with the consumer still striving to reduce debt through a high savings rate. Healthcare and Utilities stocks were also subdued. On the positive side Energy and Materials led the way, with commodity prices rising. Emerging Markets were subdued with a small positive return for the month.

In the Bond markets the yield on bonds in all regions rose, including the yield on Australian 10 year Government bonds. The improvement in some economic data, and the new bout of quantitative easing in the US, which will stimulate growth, has pushed up the bond yields in the larger markets, while some of the weaker economies have seen their spreads widen sharply under threat of further downgrades from ratings agencies. Corporate Credit spreads were little changed, and continue to offer quite a high yield premium to government bonds.

Some economic indicators have continued to improve into the year-end, especially in some key economies such as the USA and Germany, but China is endeavouring to cool domestic growth and property market speculation to combat rapidly rising inflation. Economist predictions for world growth in 2011 are for 4.4% GDP growth, with some potential for even higher growth if the US recovers more strongly than is currently forecast.

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