

Market Review – month ending June 2010

The market turmoil that occurred in May continued to impact investor sentiment into June. Somewhat softer economic data in the US along with continued speculation surrounding bailout packages for European sovereigns and question marks around growth in China, contributed to weak investor sentiment in June. Governments are now taking action to reign in massive deficits by cutting spending and raising taxes – particularly in Europe. This will have some contractionary effect on economic activity.

Market Returns to June 2010	Index Performance (%)			
	Month	3 Months	FYTD	1 Year
Australian Shares				
S&P/ASX 300 Accumulation Index	-2.65	-11.20	13.05	13.05
International Shares				
MSCI World ex-Australia Index, Unhedged in \$A, Gross	-4.11	-4.62	5.78	5.78
MSCI World ex-Australia Index, Hedged in \$A, Gross	-3.82	-10.62	14.73	14.73
Listed Property				
Mercer Unlisted Property Funds Index (Pre Tax)	0.50	1.56	3.01	3.01
S&P/ASX 300 Property Trusts Accumulation Index (GICS Sector)	-1.02	-1.54	20.34	20.34
FTSE EPRA/NAREIT Global Real Estate Index, Unhedged in \$A, Gross	1.67	7.34	22.91	21.70
Australian Bonds				
UBS Composite Bond Index (0+ years)	1.37	3.60	7.86	7.86
International Bonds				
Citigroup World Government Bond Index, Hedged in \$A	1.11	3.53	9.18	9.18
Barclays Capital Global Aggregate Index, Hedged in \$A	1.25	3.35	11.51	11.51
Cash				
UBS Bank Bills Index	0.40	1.12	3.89	3.89
Exchange Rates				
\$A to US Dollar	0.70	-7.98	4.48	4.48
Australian Trade Weighted Index	-0.39	-6.18	5.11	5.11

► **Financial Markets**

Equity markets weakened, as early gains were more than offset by the negative returns experienced in the last week of the month. In the Australian market investors flocked from pro-cyclical stocks to more defensive sectors, with the Industrials, Consumer Discretionary and Financials sectors being the hardest hit. Conversely, the Telecommunications, Utilities and Consumer Staples sectors posted better returns. Some mining stocks were impacted by the “flight to safety,” and the Resource Super Profit Tax debate, however, as gold was strong, goldminers did help the sector during June.

In the World bond markets, yields on government bonds rallied to exceptionally low levels as investors continued to move to the “safety” of government bonds. Australian government bonds performed in a similar fashion, with the RBA keeping cash rates on hold during June.

Listed property retraced, but did better than other share market sectors. Unlisted property delivered a positive return and valuations appear to have bottomed, though increases have been slight to date.

Despite equity markets appearing to be cheap based on forward earnings, the mood in the markets has returned to one of caution, as demonstrated by the recent de-risking by investors and the “flight to safety.” Question marks remain with regards to the size and timing of the recovery in the developed markets and whether the emerging markets are strong enough to drive global economic growth in the absence of developed world growth. Sovereign bond yields appear to be expensive and are discounting a recession, but most economists expect the global recovery to continue, albeit at a weak or fitful pace.

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