


Quarterly Market Commentary as at 31 December 2013*

Market Indices	Returns as at 31 December 2013					
	3 mth (%)	6 mth (%)	1 yr (%)	3 yr (% p.a.)	5 yr (% p.a.)	10 yr (% p.a.)
Australian Shares						
S&P/ASX 200 Accumulation Index	3.4	14.0	20.2	8.9	12.5	9.6
International Shares						
MSCI All Countries World Net Index (AUD)	12.2	18.5	42.5	14.8	9.3	5.3
Australian Fixed Interest						
UBS Australian Composite Bond Index 0+ Yr	0.4	1.4	2.0	7.0	5.7	6.2
International Fixed Interest						
Citigroup World Government Bond Index ex Australia AUD Hedged	0.7	2.1	2.6	7.1	6.6	7.4
Property						
S&P/ASX 200 A-REIT Accumulation Index	-1.5	-1.5	7.1	12.0	8.6	2.4
Cash						
UBS Australian Bank Bill Index	0.6	1.3	3.9	3.9	4.0	5.2
Currency						
Australian Dollar (\$A/\$US)	-4.3	-2.3	-13.8	-4.4	5.1	1.7

Financial markets commentary:

The Reserve Bank of Australia (RBA) left the official cash rate unchanged at 2.50% throughout the quarter stating at its December Board meeting that it still saw the Australian dollar (AUD) as "uncomfortably high". RBA Governor Glenn Stevens noted that "\$US0.95 was too high" and that he thought "\$US0.85 would be closer to the mark". Softer Chinese economic data releases, the firmer US dollar (USD) on Quantitative Easing (QE) tapering news and improving US economic data releases exerted downward pressure on the AUD. The AUD depreciated by 4.3% to \$US0.892 during the quarter, hitting a three-year low of \$US0.882 on 18 December 2013. Overall, the AUD was down 13.8% against USD for the 2013 calendar year.

The 2013 calendar year saw strong gains for the Australian sharemarket. Australian Equities returned 20.2% as measured by the S&P/ASX 200 Accumulation Index. This strong performance was driven by the Consumer Discretionary and Financial sectors, which rose 36.3% and 23.6% respectively. Materials was the only sector which recorded a negative return, decreasing by 3.7% for the 12 months to 31 December. The Australian share market rose to 5-year highs with the S&P/ASX 200 Accumulation Index adding 3.4% during the last quarter of 2013. GDP data confirmed that the pace of Australian economic growth continued to slow. GDP rose by a lower-than-expected 0.6% for the quarter. This brought the annual economic growth rate down marginally to 2.3% for the 12 month period. The unemployment rate remained stable at 5.8% over the quarter, initially dropping down to 5.6% in October but increasing steadily in November and December.

The MSCI World Developed Markets Index reached a 6-year high, increasing by 12.2% for the quarter and a strong 42.5% for the twelve months ending December 2013. Global equity markets began the quarter nervously due to the US fiscal impasse. However, markets rallied strongly on news that the US Congress struck an agreement late in October to end the US government shutdown and suspend the debt ceiling till February 2014. The temporary nature of the deal served to convince market participants that the US Federal Reserve (the Fed) would maintain its asset purchasing program until at least March 2014. This view was altered in December 2013 when the Fed unveiled its plans to reduce or 'taper', the Quantitative Easing (QE) bond purchase program earlier and is expected to reduce the pace of bond purchases further "in measured steps at future meetings". The Fed did, however, strengthen its forward guidance on monetary policy, stating that official interest rates will remain near zero "well past the time the unemployment rate declines below 6.5%."

In Europe, markets got a boost from an unexpected November rate cut by the European Central Bank and further (rapid) expansion of the monetary base by the Bank of Japan. Despite the Fed's December announcement to reduce its bond purchases under the QE program, global equity markets finished the year strongly. In this environment, the Euro Stoxx 50 Index lifted by 7.5%, the London FTSE 100 Index rose by 4.4% and the Japanese Nikkei 225 Index surged by 12.7% for the fourth quarter of 2013.

The 10-year US Treasury interest rate reached its highest level in more than two years towards the end of the quarter. The rate ended the year 1.27% higher at 3.03% buoyed by an improving local and global economy and the Fed's decision to reduce its QE3 program. In Australia, the UBS Composite Bond Index increased by 0.4% for the quarter, led higher by Australian semi-government bonds (+0.7%). The UBS Australian Composite Bond All Maturities Index returned 2.0% for the 12 months ending 31 December 2013. The interest rate for 10 year Commonwealth Government Securities ended the year at 4.23%, a rise of 0.96% for the calendar year.

*Source: This commentary has been prepared by The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA) and is general information only.