


Quarterly Market Commentary as at 31 December 2009*

Market Indices	Returns as at 31 December 2009						
	1 mth (%)	3 mth (%)	6 mth (%)	1 yr (%)	3 yr (% p.a.)	5 yr (% p.a.)	10 yr (% p.a.)
Australian Shares							
S&P/ASX 200 Accum	3.74	3.39	25.62	37.03	-0.70	8.36	8.79
International Shares							
MSCI World Ex Aust (AUD) Net	3.61	2.09	9.31	-0.30	-10.00	-1.02	-3.62
Australian Fixed Interest							
UBSA Composite Bond Index 0+ Yr	-0.38	1.03	2.82	1.73	6.56	5.72	6.47
International Fixed Interest							
Citigroup World Govt Bond 100% Hdg (AUD)	-0.71	0.61	3.34	3.88	8.03	7.10	7.87
Property							
S&P/ASX 200 A-REIT	3.38	-5.01	23.91	7.92	-23.10	-7.27	4.05
Cash							
UBSA Bank Bill Index	0.32	0.88	1.69	3.47	5.92	5.90	5.63
Currency							
Australian Dollar (\$A/\$US)	-1.75	1.90	11.24	28.99	4.50	2.79	3.23

Australian Shares

Investor sentiment towards the Australian share market remained reasonably fragile in the final quarter of 2009, but favourable economic data and an increase in corporate activity enabled the market to record a positive return in the period as a whole.

The S&P/ASX 200 Accumulation Index climbed 3.4% during the quarter and closed December on its highs for the year. Over 2009, the Australian sharemarket added 37%, compared to a fall of 38% in 2008 and 16% in 2007.

While economic conditions have brightened and equity valuations have increased, however, companies suggest there has been little sign of improvement in corporate earnings and this remains a concern for investors. Indeed, few companies were willing to provide earnings guidance for the full year at Annual General Meetings, many of which were held in October.

The pace of corporate activity picked up. AMP (+3.8%) and National Australia Bank (-8.6%) made competing bids for AXA Asia Pacific (+50.1%), while Transurban Group (+38.1%) received a joint takeover approach from two Canadian pension funds. Several companies announced acquisitions, Woodside Petroleum (-8.7%) was among companies to complete capital raisings and a number of initial public offerings were completed.

The Materials sector (+13.7%) was the strongest performing sector, boosted by higher commodity prices, a weaker US dollar, rising risk appetite and continued strong commodity demand by China. Consumer Staples (+4.6%) and Industrial (+3.6%) also performed well. Woodside Petroleum dragged down the Energy sector (-2.5%) while the A-REIT sector (-6.4%) also fell after rising in September quarter.

2009 was a good year for Australian equity investors with returns exceeding 37%, while 2010 is shaping up to be slightly more challenging. Interest rates are rising and there are high expectations for profit growth. Companies will need to match and exceed these expectations for gains to continue. A recovering economy, improved balance sheets and recent cost control will help, but rising official interest rates could prove to be a hurdle.

International Shares

Over the quarter, the MSCI All Countries World Index ex Australia rose 2.1% in A\$. Over 2009, the Index fell 0.3% with returns held back to the strength in the Australian dollar. Over the year, the Australian dollar rose sharply from US 70.46 cents to US 89.78 cents.

International sharemarkets added value in the quarter, assisted by further evidence of a global economic recovery. Most major economies recorded positive 3Q GDP growth rates and included the US (+0.6%), Germany (+0.7%), France (+0.3%), Japan (+0.3%) and South Korea (+3.2%). The International Monetary Fund (IMF) also upgraded its 2010 global economic growth forecast from 2.5% to 3.1%. The IMF will also publish updated forecasts in January 2010.

Over the quarter, the Dow Jones Industrial Index rose 7.4, the S&P/500 Index was up 5.5% and the NASDAQ Index rose 6.9%. Over 2009 the Dow Jones Industrial Index rose 18.8%.

Markets in Europe were also positive with an improving economic outlook, although held back by the stronger euro. This is likely to be headwind in 2010 along with government debt levels and concerns over further losses at European banks. Germany (+5.0%), Spain (+1.6%) and France (+3.7%) all rose. The UK FTSE 100 also added value, rising 5.4%. The UK economy has yet to emerge from its recession and cuts to government spending and higher taxes will prove a headwind in 2010. Over 2009 Spain, the UK, Germany and France all posted returns over 20%.

Asian markets recorded positive gains but gains were strongest in China, which rose 30.4% in the quarter. The Nikkei added 4.1% over the quarter while South Korea recorded muted gains of 0.6% despite strong growth in the economy. Singapore (+8.4%) and Hong Kong (+4.4%) also recorded gains. Calendar year returns were strong in Asia with China (+127.6%), India (+76.4%) and Singapore (+64.5%) all posting stellar returns.

Australian Fixed Interest

Over the quarter, government bond yields rose predominantly in the US and Australia. Improving economic conditions and risk appetite saw a sell-off in bond markets. Credit spreads narrowed in response to some sovereign credit default swaps widening with the Dubai World debt issue in November and other sovereign risk issues that emerged in December.

In Australia, the Federal Government released its Mid-Year Economic and Fiscal Outlook (MYEFO). Treasury upgraded economic growth forecasts and downgraded budget deficit forecasts for 2010-11 till 2012-13. Total bond issuance is now expected to be A\$50bn less than the forecast contained within the May Budget. Improvements in the budget deficit were forecast to occur from 2011/12, although a surplus is still not forecasted until 2015/16.

Ten year Australian government bond yields began the quarter at 5.36% and ended it at 5.64%, up from the low of 3.85% reached in January 2009. 10 year bond yields averaged around 5.50% from June onwards on expectations of improved economic growth in Australia and hikes to the official cash rate. The return on the UBSA All Maturities Composite Bond Index in the December quarter was 1.03%, resulting in 2009 returns to a modest 1.73%. Returns were muted given the rally in yields as bonds sold over the year were driven by improving economic conditions and rising demand for riskier assets.

International Fixed Interest

Focus remains on the timing of monetary policy tightening among the central banks. Improving economic data has opened the possibility that interest rates will be lifted mid 2010. While the timing of tightening is still open to debate, issues such as elevated unemployment levels, financial market fragility and possibilities of a slowdown once fiscal stimulus is withdrawn are likely to be considered by policy makers.

Over the quarter, US 10-year bond yields rose from 3.31% to 3.84%, finishing the quarter roughly on its high. Bonds sold off over the quarter on improving economic conditions and renewed focus on future increases in bond supply. In Europe, 10-year bond yields rose from 3.22% to 3.39%. Of most note was the rising spread between Greek and German bonds with Greece's credit rating downgraded by Moody's in December. In the UK, 10-year yields rose from 3.59% to 4.02% with concerns over government debt levels and comments by rating agencies about the resilience of several developed economies 'AAA' credit ratings.

Australian Property (including Listed and Direct)

The Australian REIT sector retreated over the quarter, down 5.0%, following a 30.5% gain in the September quarter. This meant returns for 2009 were 7.9%, compared to a loss of 54.0% in 2008 and an 8.4% loss in 2007.

Losses occurred early in the quarter with trusts' inability to attract financing and rising bond yields weighing on the sector. Confidence has begun to return to the sector with anticipation of a further improvement in operating conditions. There was an increase in property transactions over the quarter, suggesting that confidence is steadily improving. Several sales have been completed at the smaller end of the market and deals are also now proceeding on larger assets.

The office sector was the best performing sub-sector over the quarter, up 9.2% with improvements in the labour market. Over 2009 the sector has returned 0.5%. The diversified (-2.7%), retail (-8.5%) and industrial (-5.9%) sub-sectors all fell.

The better performers over the quarter were Ardent Leisure Group (+23.7%), ING Office Fund (+16.9%) and Charter Hall Group (+15.2%). Falls were experienced by ING Industrial Fund (-15.4%), GPT Group (-11.7%) and Westfield Group (-10.8%).

Cash

The UBS Australia Bank Bill Index returned 0.88% in the quarter and 3.47% over 2009. The returns from this Index reflect interest earnings on short-term money market securities and the recent low level of the official cash rate. Ninety day bank bills rose over the quarter, beginning the quarter at 3.38% and ending at 4.28% following three interest rate hikes by the RBA and expectations of more in 2010. The average yield during the quarter was 3.95%, compared with 5.16% a year earlier.

As we look into 2010, yields will be affected by the pace of RBA tightening interest rates, the pace of growth in the Australian economy and the speed at which capacity constraints are faced.

Currency

The A\$ rose in December quarter, closing the month at US0.8826 cents, a gain of 1.9%. Gains in the Aussie dollar were muted compared to the previous quarter, with falls in December as the US dollar appreciated with sovereign risk issues.

Against other currencies, the \$A rose 3.8% against the euro, 5.5% against the yen and 0.8% against the British pound. The \$A also rose 1.4% against the New Zealand dollar.

At the end of December 2009 the \$A was buying 1.2372 New Zealand dollars, 83.63 yen, 0.5562 UK pence and 0.6267 euro cents.