Colonial. Commonwealth Financial Services

Quarterly Market Commentary as at 30 Sept 2012*

Market Indices	Returns as at 30 Sept 2012						
	3 mth (%)	6 mth (%)	Financial YTD (%)	1 yr (%)	3 yr (% p.a.)	5 yr (% p.a.)	10 yr (% p.a.)
Australian Shares							
S&P/ASX 200 Accumulation Index	8.8	3.7	8.8	14.8	1.8	-3.5	8.6
International Shares							
MSCI World ex Aust Net Index (AUD)	5.0	0.8	5.0	13.6	1.8	-5.3	1.1
Australian Fixed Interest							
UBS Australian Composite Bond Index 0+ Yr	2.0	6.6	2.0	9.6	8.6	8.3	6.6
International Fixed Interest							
Citigroup World Govt Bond 100% Hdg (AUD)	2.3	5.0	2.3	8.6	8.6	9.0	7.7
Property							
S&P/ASX 200 A-REIT Accumulation Index	6.9	16.3	6.9	29.1	5.1	-12.0	2.4
Cash							
UBS Australian Bank Bill Index	0.9	2.0	0.9	4.4	4.6	5.1	5.4
Currency							
Australian Dollar ($A/$US)	1.4	0.4	1.4	7.0	5.6	3.3	6.7

Financial markets commentary:

The Australian share market rose in value for a fourth consecutive month in September as the S&P/ASX 200 Accumulation Index returned 8.8% for the September quarter as a whole. At the beginning of the quarter investors continued to favour yield-producing defensive companies, enabling sectors such as Listed Property, Telecoms, Financials and Consumer Staples to outperform. However, as the quarter progressed the obsession with yield stocks appeared to fade. In September, the announcement of a third phase of Quantitative Easing in the US supported investor risk appetite. Unsurprisingly, defensive sectors of the market then tended to underperform as investors favoured stocks with greater exposure to a cyclical recovery. The Australian listed property securities appreciated in value in Quarter 3, but underperformed the broader share market.

Global equity markets also posted gains for each month of the quarter as a number of key announcements were positive for risk assets. The US Federal Reserve confirmed that, should the outlook for the labour market not improve substantially, the Committee will continue to purchase agency mortgage-backed securities, undertake additional asset purchases and employ its other policy tools until such improvements are achieved in the context of price stability. This implies that the Federal Reserve is to continue using Quantitative Easing until the unemployment rate falls to a level considered more in line with a stronger economy. The MSCI World ex Australia (net) Index rose 6.6% in US dollar terms and 5.0% in Australian dollar terms. The Australian dollar weakened over the quarter against the US dollar due to China's slowing economy and the prospect of interest rate cuts by the Reserve Bank of Australia.

In Europe, the European Central Bank (ECB) announced details of the planned Outright Monetary Transactions (OMT) policy at its September Board meeting after concerns relating to the health of Spanish government finances grew throughout July and August. This policy is expected to be used by countries that may require assistance, such as Spain or Italy, to purchase short-term sovereign bonds. However, the OMT will come with strict conditions. Countries must sign up for a European Financial Stability Facility (EFSF) program and the requirements that come with that. It is now a waiting game to see whether Spain or Italy ask for assistance, and which conditions may be imposed upon them. Without a request for assistance though, there is a possibility that the OMT will never be activated.

The Australian 10-year Commonwealth Government Securities (CGS) interest rate fell to a record low of 2.67% in July. This was driven by weaker than expected US employment and Chinese import data releases, together with the uncertain global economic outlook. Concerns about Spain's ability to stave off a sovereign bailout prompted market participants to seek out safe-haven fixed interest assets. Rates of 10-year CGS's did recover to 3.44% midway through the quarter but fell again, closing the quarter at 2.90%, on rising anticipation of an interest rate cut, weakening commodity prices and a deteriorating global economic outlook.

During the quarter, S&P affirmed Australia's AAA sovereign credit rating and maintained its 'stable' outlook, citing comfort with Australia's macroeconomic backdrop and financial system.

*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.