Quarterly Market Commentary as at 31 December 2012*

Market Indices	Returns as at 31 December 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	6.9	16.4	16.4	20.3	3.0	-1.6	9.1
International Shares							
MSCI World ex Aust Net Index (AUD)	2.5	7.7	7.7	14.1	1.9	-4.5	0.9
Australian Fixed Interest							
UBS Australian Composite Bond Index 0+ Yr	0.2	2.2	2.2	7.7	8.3	8.3	6.4
International Fixed Interest							
Citigroup World Govt Bond 100% Hdg (AUD)	1.6	3.9	3.9	8.4	8.9	8.8	7.7
Property							
S&P/ASX 200 A-REIT Accumulation Index	6.9	14.3	14.3	33.0	9.3	-8.3	2.5
Cash							
UBS Australian Bank Bill Index	0.8	1.8	1.8	4.0	4.5	4.9	5.4
Currency							
Australian Dollar ($A/$US)	-0.2	1.3	1.3	1.3	4.9	3.4	6.3

Financial markets commentary:

The Australian share market closed 2012 strongly, with the S&P/ASX 200 Accumulation Index adding 3.4% in December, its seventh consecutive month of gains, and 6.9% in the fourth quarter. The Index gained more than 20% for the whole of the calendar year with May the only month during 2012 where the Index finished in the red (-6.4%). The local market outperformed the broader global index in 2012 by 5.6%. The MSCI All-World in Australian dollars returned 14.7%. Stocks in the Australian Listed Property sector performed in line with the broader Australian share market during December, but registered a solid return of 33.0% for the calendar year.

Investors maintained their appetite for risk in the fourth quarter, following the Federal Reserve’s announcement of open-ended quantitative easing in September. Equity markets posted positive gains over the 3 months despite the US Presidential election, Superstorm Sandy and US Fiscal Cliff negotiations creating considerable uncertainty and volatility during the 3 month period. Elsewhere, the focus was on new policy measures announced by the US Federal Reserve, elections and expectations of more quantitative easing in Japan, political uncertainty in Italy and, yet another, debt deal for Greece.

Through a combination of spending cuts and tax increases, the US Fiscal Cliff had the potential to wipe out 4% of GDP growth from the US in 2013, likely driving the economy back into recession. US politicians were able to come to a deal, in the early hours of 1 January 2013, which limited the fiscal policy tightening for 2013 to around 1.5%. In Greece, finalisation of another round of debt restructuring again helped clarify the future of the EU, at least until German elections in late 2013.The Australian dollar remained at the same level it started the quarter against the US dollar despite a further 0.25% interest rate cut by the Reserve Bank of Australia in December. The Official Cash Rate now stands at 3.0%, the record low level it last stood at in early 2009 during the GFC.

In July 2012, the Australian 10-year Commonwealth Government Securities (CGS) interest rate fell to a record low of 2.67%. By 31 December, the interest rate was back up to 3.27%. The increase was mostly driven by offshore developments. In particular, short-term economic indicators released in China continued to point to an economic recovery for Australia’s largest trading partner while economic data in the US (GDP, employment, retail sales and housing surveys) continued to surprise on the upside.

During the previous 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.