

# AON MASTER TRUST MARKET UPDATE

Quarter ended 30 June 2010



## Welcome relief in 2009/10 but the GFC recovery still has a way to go

Positive investment returns for 2009/10 were a welcome relief after two years of losses for growth-oriented strategies. However, unwelcome volatility during the June quarter reminded investors that the process of recovering from the global financial crisis is far from over. The vigorous public debate being waged in the US as to priorities—reduce deficit spending or maintain programmes that support the economy—is critical in shaping the global economy. Too much austerity too soon could choke off the emerging recovery in developed economies. Rising and unsustainable debt (many countries are facing massive debt challenges) could lead to defaults on payments or inflation. At the same time, growth rates in emerging economies such as China are slowing. Investment markets may be jittery for a few years to come as governments try to find the appropriate balance between managing the economy and managing the budget.

### Australian shares

Australian shares gained over 13% for the financial year but dropped 11.2% during the June quarter, with May being the market's worst performing month since October 2008. This was despite strong economic news (the Australian unemployment rate fell to 5.2% in May and GDP grew by 0.5% in the March quarter).

Domestically, the controversial Resources Profits Super Tax announcement attracted global attention and the Metals & Mining ex Gold sector fell over 14% over the quarter. However, the well-managed Australian banking sector also declined sharply (-15%) due as much to global economic uncertainties as to domestic reality.

### International shares

Concerns about bailout programmes for Greece and weak economic data in the US resulted in sharemarket volatility, with this market returning -5.1% in AUD and -10.9% in AUD hedged terms for the quarter. However, for the financial year, shares generated positive returns.

Countries with severe sovereign debt issues experienced sell-offs in their markets. The Greek sharemarket, for example, fell more than 34.2% over the quarter. By region, North America (-11.1%) and Asia/Pacific ex Japan (-9.3%) were the worst performers.

Defensive sectors such as Telecommunications (-4.7%) and Consumer Staples (-6.3%) led returns. Materials (-12.9%) and Energy (-14.3%) lagged due to falling commodity prices and energy investors' concerns over the BP oil spill.

### Property

The global market rebounded strongly with a return around 30% for the financial year but -6.6% in AUD hedged terms for the quarter.

All countries delivered negative results during the quarter, with Australia (-1.1%) and North America (-4.0%) being the only regions to outperform the broader index. Continental Europe (-8.4%) and the UK (-12.1%) lagged over the quarter as European markets focussed on economic and political prospects.

In Asia, Singapore (-1.1%) outperformed, while Hong Kong (-9.1%) and Japan (-15.0%) were both heavily sold off. Chinese/HK developers

continued to face headwinds in the form of policy tightening. In Japan vacancy rates continued to climb and cancellations in existing building leases weighed on developers' share prices

With the exception of Specialty (0.4%), all sectors delivered negative returns. Stand-outs were Diversified (-9.3%), Lodging/Resorts (-11.5%) and Industrial (-13.1%).

### Fixed interest

Fixed interest markets generated solid returns for the financial year. Australian bonds returned 3.6% during the June quarter, slightly outperforming the global bond market's 3.4% in AUD hedged terms. Interestingly, the majority of international government bond markets did well during the quarter; the sovereign debt crisis in Greece boosted demand for government bonds with less credit risk.

The Reserve Bank of Australia (RBA) kept the official cash rate steady at 4.5% in June (after rises in April and May) noting that developments in Europe and the implications for the broader global economy required a temporary pause in rate hikes.

Performance to 30 June 2010	3 mth %	1 yr %	3 yr % pa	5 yr % pa	10 yr % pa	Index used
Australian shares	-11.2	13.1	-8.0	4.5	7.0	S&P/ASX 300
International shares (\$A hedged)	-10.9	14.0	-10.9	0.6	-0.5	MSCI World Net Dividends Reinvested Accumulation Index (\$A Hedged)
International shares (\$A unhedged)	-5.1	5.5	-11.3	-2.0	-4.3	MSCI World Net Dividends Reinvested Accumulation Index
Australian listed property	-1.5	20.3	-24.3	-8.3	2.8	S&P/ASX 300 A-REIT
Australian fixed interest	3.6	7.9	7.7	6.1	6.4	UBSA Composite Bond All Maturities
International fixed interest	3.4	11.5	9.8	7.2	8.1	Barclays Capital Global Aggregate HDG AUD
Cash	1.1	3.9	5.6	5.8	5.5	UBSA 90 Day Bank Bill

Source: Russell Investments  
Note: Past performance should not be considered a guide to future performance..

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