

# AON MASTER TRUST MARKET UPDATE

Quarter ended 31 December 2009



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## At the start of 2009

Hindsight makes the past seem simpler than it was but, at the beginning of 2009, two things were clear:

1. sharemarkets, credit securities and other risk assets were exceptionally cheap, and
2. a recovery was likely sometime given the depth of the downturn and the amount of monetary and fiscal stimulus underway around the globe.

## A year on

Markets have rebounded and valuations on most asset classes are back to 'normal' levels. The major economies are moving out of recession, led by the US. It is far from clear, however, just how strong and sustained the global recovery will be.

Our view is that the recovery will be a long and drawn out affair. Consumer de-leveraging, the gradual withdrawal of fiscal stimulus, and the ongoing process of bank balance sheet repair will provide strong headwinds.

## Australian shares

The local market returned 3.4% during the quarter, recovering from a monthly fall in October, its first since the recovery rally began in March. For the 2009 calendar year, Australian shares rose by 37.6%.

Sector performance was mixed during the quarter. Resource stocks were well supported, including Metals & Mining ex Gold (14.5%) and Gold (14.1%), while Diversified Financials (-8.4%), Property Trusts (-5.0%) and Banks (-1.4%) recorded falls.

## International shares

International shares continued to rise in the quarter, returning 2.1% in AUD and 5.3% in AUD hedged terms.

Among developed countries, macro economic and company indicators were most positive in the US. A dip in jobless claims beyond that anticipated, rising consumer confidence and a

high degree of positive earnings revisions caused the US (5.9%) to outpace other regions in local currency terms. Japan (1.1%) continued to lag as political uncertainty increased, unemployment crept up and confidence in the Bank of Japan deteriorated further.

Materials stocks (11.3%) led global sector returns, boosted by continued commodity strength. Consumer-related sectors also enjoyed a strong quarter, as did the IT sector (8.6%). Financials weakened (-3.4%) as investors questioned future growth potential in the sector.

## Property

Australian listed property trusts fell 5% in the quarter, but rose nearly 10% over the 2009 calendar year (however, direct property in Australia declined in value more than 9% in 2009). The global property securities market delivered a quarterly return of 5.3% in AUD hedged terms, and increased 32% in the calendar year. Though not as strong as the previous quarter, regional returns in local currency terms were positive, led by North America (8.7%), Asia (4.3%) and the UK (3.9%).

Except for Germany (-5.8%), most property companies in Continental Europe advanced over the quarter supported by stabilisation in property valuations and evidence that the Eurozone has emerged from recession.

## Australian fixed interest

The official cash rate was raised from 3.0% to 3.75% during the quarter. The current cash rate is low given the strength of the Australian economy and the fixed interest market anticipates that the Reserve Bank of Australia will increase the official cash rate over the course of 2010 to pre-empt inflationary pressures.

Australian bonds returned 1.0% during the quarter and 1.7% over the year. The corporate sector of the market performed relatively well, although the pace of the rally in credit waned over the course of 2009.

## International fixed interest

International bonds returned 1.1% over the quarter and 8% over the year in AUD hedged terms. Credit securities, high yield debt and emerging markets debt continued to perform well over the quarter.

Performance to 31 December 2009	3 mth %	1 yr %	3 yr % pa	5 yr % pa	10 yr % pa	Index used
Australian shares	3.4	37.6	-0.8	8.3	8.8	S&P/ASX 300
International shares (\$A hedged)	5.3	27.0	-6.3	2.8	0.2	MSCI World Net Dividends Reinvested Accumulation Index (\$A Hedged)
International shares (\$A unhedged)	2.1	0.8	-9.7	-0.8	-3.4	MSCI World Net Dividends Reinvested Accumulation Index
Australian listed property	-5.0	9.6	-23.4	-7.5	4.0	S&P/ASX 300 A-REIT
Australian fixed interest	1.0	1.7	6.6	5.7	6.5	UBSA Composite Bond All Maturities
International fixed interest	1.1	8.0	8.0	7.0	7.9	Barclays Capital Global Aggregate HDG AUD
Cash	0.9	3.5	5.9	5.9	5.6	UBSA 90 Day Bank Bill

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

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