

Market Commentary

April - 2009

Share markets enjoy a much needed rally

Some positive data that was seen in March has continued through to April. This has led to speculation that some of the world economies are stabilising after shrinking in the first quarter at the fastest pace in decades. In April, manufacturing continued to fall, but the rate of fall was the slowest in seven months in the US and in eight months in the UK. US consumer confidence, driven by low mortgage rates, cheap oil prices, and a stock rally, rose more than forecast, to reach its highest level since before the credit collapse of last year. Japan saw a rise in exports and Korea an up-tick in GDP. There is a groundswell of hope that these are signs of "green shoots" rather than just weeds. Despite these positive signs the global economy continues to face a number of negative factors, such as rising unemployment, depressed corporate earnings and higher credit costs.

World share markets continued to recover sharply in April, with both Global and Australian shares returning over 5% for the month. In Australia, the S&P/ASX 300 rose by 5.7% in April. This is the first time the index has posted consecutive monthly gains since March – April last year. The Resources sector lagged, despite news that the worst of the economic decline may have now passed. Some riskier sectors did better than average, with Consumer Durables, Consumer Staples and Diversified Financials all outperforming the broader market. In the Banking sector, rising bad debts impacted profits, leading to weak earnings reports from both the NAB and ANZ. Small Cap shares outperformed Large Cap shares again.

Elsewhere, the global share markets continued to forge ahead in local currency terms. The US S&P500 Index rose by 9.4% while some European markets such as Germany and the France performed even better, rising 17.4% and 13.6% respectively. Emerging market shares were even stronger, with Asian markets outperforming strongly. Sentiment was helped by the China stimulus package which seems to be filtering through to other economies in the region. Conversely, Latin America has been largely underperforming.

Listed Property Trusts rallied in April and actually outperformed ordinary shares. Their returns are well above the negative returns commonly seen in unlisted property trusts as the underlying values of the properties are gradually being revalued downwards.

In the bond markets, government bonds have had a sharp sell-off, as rates have risen from the lows of a few weeks ago. The World Government Bond Index returned -5.4% over the month. However, both the UBS Composite and the Barclays Global Aggregate Indices were supported by some improved returns from the non-government bonds sectors and have shown net returns close to zero. There has been a sharp recovery in the prices of some high yield corporate bonds in recent weeks, as buyers have returned to take advantage of the higher yields on offer compared to the minimal returns available on cash and bank bills.

The rally in shares has seen share prices rise at unprecedented rates and some commentators are of the view that the rise has been overdone, at least in the short term. The recovery has already moved faster and further than anyone expected. Whether this is the case or not is yet to be seen. Although the rate of fall in the World economy shows signs of slowing, there are few signs of a solid recovery. Until there is more certainty

about the direction of growth, it is sensible to be circumspect about the longevity of the share market strength.

Source: JANA Investment Advisors Pty Ltd AFSL 230693

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