

Market Commentary

March - 2009

Share markets enjoy a much needed rally

There was little improvement in the outlook for the world's economic and financial systems during March. New economic indicators showed that the decline in activity continued especially in developed markets and this has been accompanied by a collapse in world trade, with exports from manufacturing countries like Japan down 50% while German exports have also fallen sharply. This has also adversely affected the emerging markets countries that have relied on export markets for a large part of their growth. As a counter to this gloomy outlook central banks have continued to cut cash rates to historic low levels and governments are playing their part by announcing large spending programs aimed at supporting the consumer and also the banking system by purchasing some of the toxic loans on the bank balance sheets.

Share markets around the world have enjoyed a good rally in March as some investor confidence returned. Australian shares have risen by 8.1%, with small companies outperforming. The sectors that performed most strongly included the beaten down financials, information technology and consumer discretionary, while the healthcare sector underperformed. The banks have all risen strongly following the government guarantee offered on their borrowings, while the underlying businesses are performing strongly with improved margins. The recent period has been characterised by a surge in equity raisings with \$32bn raised in the past six months to help recapitalise companies.

Global share markets were also stronger in local currency terms and the MSCI ex Australia index rose by 6.5% in March. Unfortunately this was offset by a stronger \$A which rallied 8.8% against the USD, on the back of renewed risk appetite and some recovery in commodity prices with the final result to unhedged global share investors being a small negative return for the month. As with the Australian market the most defensive sectors such as utilities and consumer staples underperformed while financials recovered somewhat after the battering they have taken in recent quarters.

North American shares in the USA and Canada both rose by 8.5%, while European markets were also stronger although they lagged the USA. Emerging markets outperformed developed markets over the month with commodity exporters such as Russia (oil and gas) and South Africa (gold and base metals) leading the pack. Asian markets were also dragged higher on the back of a strong performance by China, which was boosted by a package of infrastructure spending.

Listed Property Trusts were flat in March and again underperformed shares. Although the banks are becoming a little more supportive to some entities there continues to be uncertainty on others which are less likely to survive. Unlisted property returns are expected to also suffer downwards revaluations in 2009 under pressure from the large amount of market offerings.

Bond market yields have been very volatile in recent weeks, but there was not much change over the month. Index returns showed a small positive return with global bonds outperforming Australian bonds as US Treasury and other government bonds yields fell in yield, compared to the more static Australian bond market where yields have been held up by the still higher cash rates.

The rally in shares has continued into early April, but economic conditions remain weak, and it is too soon to state that the bear market is over. It is likely that there will be further volatility in months ahead. There will be opportunities to buy cheap assets in months ahead but caution remains the watchword.

Source: JANA Investment Advisors Pty Ltd AFSL 230693

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