Market Update September 2012

Economic Overview

Monetary conditions around the world have been greatly stimulatory. Markets are keenly looking out for signs of economic growth to slowly arise from worldwide stimulus packages. To summarise:-

In Europe, interest rates are 0.75%. European Central Bank (ECP) announced it would buy an unlimited amount of bonds of "troubled" European governments, who agree to a bail out austerity plan. This policy is expected to be used to purchase short-term Spanish and Italian sovereign bonds.

In the US the Federal Reserve (the Fed) announced an aggressive new phase in its monetary policy easing – including a third round of quantitative easing (QE3). The Fed will expand its balance sheet by purchasing US$40 billion of mortgage-backed securities per month indefinitely. The Fed also committed to keep monetary policy extraordinarily easy "for a considerable time after the economic recovery strengthens". Near zero interest rates in the US are anticipated until at least the middle of 2015.

In China, GDP growth forecasts have been revised down, partly due to limited stimulus announcements; namely interest rate cuts in June and July and recently short term cash has been pumped into money markets.

In Australia, the Reserve Bank (RBA) eased monetary policy by 25 basis points in early October. The official cash rate is now 3.25%. The decision to lower interest rates was based on both global and domestic economic concerns.

Australian Shares

The Australian sharemarket rose in value for a fourth consecutive month in September, with the S&P/ASX Accumulation Index adding 2.2%. That increased the return for the September quarter as a whole to 8.8%.

Uncertainty over the near term, hangs over the Australian resource sector. Resource stocks are still hostage to weakness in Chinese demand and the recent fall in Commodity prices. Gold stocks were the standout in the quarter.

Listed Property (REIT)

Australian listed property securities appreciated in value in September, but underperformed the broader sharemarket. The S&P/ASX 200 property Accumulation Index returned 1.3%. Investors generally favoured risk assets, and rotated out of more defensive investments, such as REITs.

Australian REITs offer an attractive yield, and are in strong financial positions with healthy balance sheets. This should continue to provide support to the sector in the medium term.

Offshore listed property markets generated mixed returns in September. The UBS Global Property Investors Index (local currency) returned -0.2%. Regionally, Japan (+5.5%) and Singapore (+3.4%) performed most strongly. The US & Canada (-1.8%) and the US (-1.1%) underperformed.

Global Shares

The MSI World Index rose 2.5% in the USD terms and rose 1.9% in AUD terms, although this masked considerable divergence between countries and industry sectors.

US equity markets rose, led by the Dow Jones which was up 2.7%.

European equity markets were mixed with France (-1.7%) and Italy (-0.0%) among the laggards. Spain was amount the top performers, rising 3.9% on hopes of an imminent request for assistance from the European Financial Stability Fund (EFSF). Gains in the Spanish equity market occurred despite a tough Budget and deteriorating economic conditions. Elsewhere Germany (+3.5%) and the UK (+0.5%) registered gains.

Fixed Interest

High-grade global bond yields rose sharply in the first half on September, continuing their upward trend since late July. This followed European Central Bank (ECB) President committing that the ECB would do 'whatever it takes' to save the euro, Yields in the peripheral Eurozone markets reacted favourably to the ECB's commitment for more active support. The Spanish 10-year government bond yield fell by 93 bps to 5.90% in September, but still remained above its 2012 lows as concerns over a possible Spanish bailout heightened. This resulted in large scale public protests over the country's implementation of austerity measures.
The ECB left its refinancing rate unchanged at a record low of 0.75%.

The Australian 10-year Commonwealth Government Securities (CGS) yield increased in the first half of September, rising by 33 bps from an August month-end yield of 3.01% to an intra-month high of 3.34% in mid-September.

However, Australian bond yields fell sharply in the second half of the month. The yield of the 10-year CGS declined by 11 bps, closing September at 2.90%. This was driven by rising anticipation of an interest rate cut, due to weakening commodity and deteriorating global economic outlook.

Acknowledgements:- Colonial First State, Monthly Market View, September 2012.
Perennial Perspective, Monthly Investments Update, October 2012.
MLC, September 2012, Market Review.