

# Market commentary

## February 2009 monthly commentary

The grind of the global financial crisis continued in February, showing signs of spreading economic and financial impact. In February, US unemployment rose to a 16-year high of 7.6%; economic results showed that GDP experienced the sharpest decline since 1982 by contracting 1.6% over the December quarter; and housing prices continued their slide to historic lows. Correspondingly, Congress approved the US Government's proposed US\$787 billion fiscal stimulus and the US Treasury announced a US\$2 trillion 'Financial Stability Plan' to support the financial system. Across the Pacific, Japan's economic woes continued as the December quarter revealed real GDP to have declined 3.3% following a significant fall in net exports, capital spending and industrial production. China has also felt the impact of the global economic downturn, with the nation's exports falling 17.5% for the year ending January. China's fiscal stimulus however did have a positive impact with manufacturing surveys improving and lending growth increasing by 21.3% for the year ending February 2009. Europe's real GDP contracted over the December quarter by 1.5% as sliding house prices and rising unemployment dampened consumer confidence and business investment. Equity markets reflected this global picture with the MSCI World (ex-Australia) Accumulation Index, returning -9.1% in local currencies (or -10.8% in unhedged Australian dollar terms).

The general slowdown in Australia's economy has been less remarkable than the rest of the world and February was not an exception to that. Following the Government's fiscal injection, December quarter's retail sales rose 3.8%. January however showed that employment growth had slowed over the month and unemployment increased to 4.8%. The Reserve Bank of Australia sharply cut the official cash rate by 100 bps to 3.25% with the aim of sheltering domestic confidence and demand from the effects of the global storm. The Australian equity market continued its fall in the new year, with the S&P/ASX 200 Accumulation Index returning -4.6% for the month. The best performing sectors over February were Energy (1.9%), Consumer Staples (-1.1%) and Information Technology (-2.3%). The sectors that fared worst were Industrials (-21.3%), Property (-17.9%) and Utilities (-10.7%).

In the Australian bond market the UBSA Composite Bond index returned -1.2% over February and returned 14.4% over the year. Bond yields increased over the month with the market's expectation that the Government's significant fiscal stimulus will increase the supply of bonds to fund the budget deficit. Ten year bond yields rose 33 bps over February to 4.4% and three year bond yields rose 45 bps to 3.4%. The UBSA Bank Bill index returned 0.3% in February.

The S&P/ASX 200 Property Accumulation Index returned -16.2% in February. The sharp decline was spurred by the profit reporting season revealing rising capitalisation rates and falling asset valuations.

The Australian dollar appreciated against a basket of currencies over February. Japan's ailing economy helped the AUD appreciate 8.9% against the Yen (JPY 57.2). The AUD also appreciated 3.0% as per the Trade Weighted Index, and 0.4% against the USD (63.5 US cents).

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