

# Market commentary

## January 2010 monthly commentary

The global economy continued its slow recovery in the first month of 2010 while the International Monetary Fund raised its 2010 forecast for global growth from 3.1% to 3.9%. In the US, the economy grew by 1.4% in the December quarter (the highest quarterly growth in 6 years) and key manufacturing index measures were at 5 year highs. However, on a less positive note, unemployment remained high at 10% in December while the housing sector saw mixed results with construction starts falling a further 4% in the month of December. Indicators from the Japanese economy were also mixed, where stronger manufacturing and job market data emerged alongside weaker consumer sentiment, low domestic demand and a fall in small business confidence in December. In contrast, the Chinese economy continued to grow strongly. Real GDP for 2009 was 10.7%, supported by growth in retail sales and industrial production. Fear of creating asset bubbles led to monetary tightening in the form of increased reserve requirement ratios. In Europe, sovereign default risk in Greece was a focal point and it highlighted the different strengths of economies in the region. In the UK, the economy finally came out of recession by growing marginally in the December quarter. In global equity markets, all major indices fell in January amidst monetary tightening in China and concerns over sovereign default risk in Greece. The MSCI World (ex-Australia) Accumulation Index returned -3.5% in local currencies (or -2.9% in unhedged Australian dollar terms).

In Australia, positive data releases continued to emerge during January. Building approvals increased in November and house prices rose for a third consecutive quarter in December. Stronger labour markets saw a fall in the unemployment rate to 5.5%. Headline inflation also rose over the quarter and the Reserve Bank of Australia's (RBA's) preferred measure of inflation, underlying inflation, was higher by 3.4% for the year. This is outside the RBA's target range of 2% to 3% and given the stronger position of the economy, many market participants expect the RBA to increase interest rates throughout 2010. Influenced by global share markets, the S&P/ASX 200 Accumulation Index fell 6.2% for the month. Resource stocks were heavily affected by monetary tightening in China in combination with possible tax initiatives in the forthcoming Henry Tax Review. The better performing sectors in January were Information Technology (-0.8%), Property (-2.9%) and Telecommunications Services (-3.1%). The poorest performing sectors were Energy (-9.8%), Materials (-9.1%) and Consumer Staples (-8.4%).

In the Australian bond market, the UBSA Composite Bond Index returned 1.3% for January and 1.7% over 12 months. The ten year and three year bond yields fell to 5.4% pa and 4.5% pa respectively at the end of January. Offshore factors leading to a sell off of shares and concerns surrounding Greece's sovereign debt pushed up bond prices locally. The UBSA Bank Bill Index returned 0.3% over the month of January as yields rose by 0.1% to 4.4% pa.

The S&P/ASX Property 200 Accumulation Index returned -2.9% during January. The Retail sub-sector was the best performer (+0.3%) while the Industrials sub-sector was the worst performer (-7.5%).

In January, the Australian dollar (AUD), affected by the monetary tightening measures in China, depreciated against the US Dollar (USD), the Japanese Yen (JPY) and the trade weighted index. The AUD depreciated 2.0% against the USD (88.0 US cents) and was down 5.2% against the Yen (JPY 79.2).

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