Investment update

November 2011

Any trace of positive sentiment from last month was quashed in November. The US Budget Deficit Super Committee announced that it had failed to reach a consensus on measures to reduce the deficit, triggering automatic budget cuts from 2013. Meanwhile, the euro zone continued to struggle to find a policy response sufficient to calm nervous markets. China reported the sharpest fall in manufacturing data since March 2009, causing commodity prices to generally tumble. In this 'risk off' environment, equity markets struggled, undoing the strong gains achieved last month.

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Australian Shares

Australian equities finished the month down (-3.4 per cent). The themes driving the Australian market were largely consistent with the main themes globally. In a period where negative sentiment drove markets, defensive stocks generally outperformed. Energy, Materials, Consumer Discretionary, and Financials underperformed while Industrials, Health Care, IT, Telecomms and Utilities fared best. Small companies marginally underperformed large caps due to the underperformance of small resources stocks relative to small Industrials.

International Shares

Global equities performed poorly on a hedged basis (-2.8 per cent), but with the Australian dollar weakening significantly against the US dollar, unhedged returns (in Australian dollars) were positive for the month (+1.0 per cent). Emerging markets underperformed Global equities on an unhedged basis (in Australian dollars). There was a wide disparity between country performances in local currency terms. The European countries of Austria, Greece, Portugal and Spain were weak. Conversely, Germany, Ireland, Norway, Sweden, Switzerland, UK and the US were the standout performers on a relative basis. In an environment of risk aversion, the defensive sectors of Consumer Staples, Health Care, Telecoms and Utilities posted strong returns. Energy and Industrials did well, but other cyclical sectors such as Materials and Consumer Discretionary performed poorly. Financials struggled on the back of renewed concerns about the US's ability to reach a policy consensus in relation to the US fiscal position, the European debt crisis, and concerns about exposures to the European sovereign crisis.

Property

Listed property trusts posted a positive return for the month, due to their perceived defensive characteristics. Unlisted property posted a positive return for the month with returns largely reflecting income.

Australian and International Fixed Interest

The RBA announced a 0.25 per cent rate cut in early November. Australian five and 10-year government bond yields tightened considerably over the month while bond yields for the euro zone marginally softened in aggregate reflecting investor concerns about the fiscal viability of some Euro countries. UK 10-year bonds tightened slightly, while US 10-year bonds were relatively flat. Longer duration Australian Government inflation linked bonds were the standout performer for the month. Global credit as measured by the Barclay's Global Credit Index had a weaker month in hedged $A terms. The 10-year yields of Australian, Euro area, UK and US government bonds remain low, having declined since 30 June 2011 by 0.7 per cent - 1.3 per cent.

Subsequent to month end, investment markets surged in response to the news that the world's major central banks, including the European Central Bank, Federal Reserve, Bank of England, Bank of Canada, Bank of Japan and the Swiss National Bank, agreed to coordinated action to ease the increasing strains on the global financial system by lowering the cost of the existing liquidity swap rates by 0.50 per cent. China cut its reserve rate requirement by 0.50 per cent, the first move in three years, and US jobs data surprised on the upside. Investors should expect volatility to continue for the time being as market sentiment proves to be closely aligned to political and policy announcements.

Source: JANA Investment Advisers
Please note: Past performance is not a reliable indicator of future performance

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