

# Market outlook

Market commentary provided by  
Advance Investment Solutions team

The quarter ending June 2009 saw a return of optimism as investors began to feel that the worst of the global financial crisis had passed. The remainder of 2009 is likely to see this optimism continue, as policy initiatives introduced by global authorities begin to take effect.

## **Economic overview – June 2009 quarter**

By the beginning of the June quarter, there was clear evidence that the worst of the financial crisis may have passed, and the seeds for a slow recovery in the global economy were emerging. In particular, leading surveys of business activity have begun to improve.

In the US, the key Institute for Supply Management indices began to rise, signalling a recovery in both manufacturing and non-manufacturing sectors. Similarly, Purchasing Managers Indices for Europe and China have also improved. Global inflation eased further with US headline consumer inflation running at -0.6% as at April.

In Australia, the economy received an unexpected boost. GDP figures showed the economy actually expanded during the March quarter, with business and consumer confidence improving in recent months.

## **Outlook by asset class**

### **Australian shares**

In the very short term we expect the market to decline in thin market conditions that generally prevail during the Northern Hemisphere summer. We wouldn't be surprised to see some risk reduction and profit-taking, causing the market to drift lower. The ASX 200 has good support around the 3,700 to 3,600 levels, with strong support around 3,500. Our one-year upside target is around the 4,500 level.

### **International shares**

In the very short term, developed markets are likely to decline while investor risk-aversion is likely to be more negative for emerging markets and their currencies. Using the US S&P 500 as a guide, we expect the S&P 500 volatility index to rise from its current 28 level to around the 33 to 36 levels; the S&P 500 index looks set to test the 850 to 830 zone before resuming its medium-term upward trend.

### **Diversified property**

We are slightly positive on diversified property (REITs). A number of factors could set the stage for stabilisation in REIT fundamentals. The extreme volatility in REITs seems to be slowly subsiding, an indicator that could signal a bottom for this asset class.

### **International bonds**

In the very short term we expect yields to decline from the prevailing 3.50% level to around 3.25% before increasing towards the 4.25% level during the next 12 months. We expect credit spreads to widen during this period and then recommence their narrowing trend.

### **Australian bonds**

We believe credit spreads in the Australian market will narrow towards sovereign spreads. The sheer supply of both sovereign and state debt will make the Australian market lag behind global fixed income. We expect the Australian bond market to rally in the very short term, followed by yield increases

towards the 6.0% level or higher over the 12 month horizon.

### **Alternative assets**

We favour macro strategies; managed futures funds; equity long-short funds; credit long-short funds; fixed income arbitrage and convertible arbitrage strategies in this category. We are cautious on directional strategies.

### **Commodities**

We expect commodity markets to decline in the very short term as investors reduce their risk appetite and market volatility picks up during the northern hemisphere summer. We remain positive on the asset class in the short, medium and long term.

### **Currencies**

We expect a short-term period of US dollar strength and weakness in major currencies, in particular emerging market currencies. We expect the Australian dollar to drift lower towards the 0.75 to 0.73 levels before moving to a 0.83 to 0.90 range sometime next year. We recommend that overseas investment hedge ratios be increased to protect global investments from capital erosion.