



QUARTERLY MARKET OUTLOOK – Mar 09

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Global Economic Conditions

Global growth continued to weaken in the December quarter amid growing fears of a synchronised global slowdown turning into a global recession. Many major governments revealed rescue packages and fiscal and policy measures to support their ailing financial markets.

US economic growth was negative in the December quarter, with the US officially being declared in recession by the National Bureau of Economic Research. In a significant move, the US Federal Reserve cut official interest rates to between 0 to 0.25% in December to promote economic growth and preserve price stability.

With the euro economy now in recession, inflation falling and credit markets still defective, there is a strong case for cutting ECB rates lower in 2009. Similarly, UK economic conditions further deteriorated in the December quarter, with signs of further reduction in consumer spending and business investment in the region.

The Japanese economy, the world's second-largest economy, entered into its first recession in seven years as weaker demand for its exports from the US a key driver. With global economic conditions slowing, the Bank of Japan (BOJ) moved interest rates by 0.2% to 0.1% in December.

Asian economies are slowing significantly, however they look more resilient relative to many other emerging economies, assuming the credit crisis is not drawn out for too long. Asian economies, particularly the larger ones or those with flexible government policy, such as China and India, are more likely to continue with moderate growth in the mid-single digit range.

The issue going forward for many of the fiscal and monetary stimulus packages used by the various major economies, is that they will depend on the readiness of consumers and businesses to start spending, or for banks to pass on these funds. However, if the main concern for consumers and businesses is to reduce debt on their balance sheets, and not take on more debt, then these government schemes will not bring about the desired affect for economic growth. Thus it could take a while before normal spending behaviour filters through the wider markets again.

Australia



Negative economic news continued in the December quarter, with recent economic data doing little to improve confidence in the domestic economy. Over the September quarter, economic growth was just 0.1% in what was the weakest quarter since September 2000. Furthermore, economic growth for the 12 months to September 2008 was 1.9%, down from 2.9% for the 12 months to June 2008.

With weaker domestic economic conditions and gyrations in financial markets, the Reserve Bank of Australia (RBA) met market expectations in December with a further rate cut of 1%, leaving official cash rates at 4.25%. On an overall quarterly basis, the RBA cut a total of 3.0% from a cash rate of 7.25% in September. Notably in this cycle, official interest rates reached a peak of 7.25% in March in 2008.

Since the collapse of Lehman Brothers in September, policy makers in Australia have been supporting the economy with several sizeable packages to encourage spending and provide aid to the financial markets. In early December, the Rudd government outlined a spending plan, which saw the Australian economy boosted with \$8.7 billion handed over to pensioners and families. The aim of this package was to encourage consumer spending before Christmas to support the weakening Australian economy.

With weaker economic conditions persisting, the Rudd government further revealed fiscal stimulus policy spending for the infrastructure sector aimed at encouraging employment, consumption and economic growth. This additional package includes \$1.2 billion be spent on railways, \$1.6 billion on education and \$1.6 billion promoting additional investment.

With regards to the local economy, recent economic data has indicated that GDP in the September quarter was restrained by slowing consumer spending and net exports. Households are curtailing their spending in light of events of recent months, and appear to be saving for a rainy day with the household savings rate rising to 3.9% - the highest level in 11 years. On the other hand, government spending, business investment and a build up in inventories provided some support.

Monthly data also showed slowing employment growth and weakened business confidence. The unemployment rate rose to 4.4% in November and further increased to 4.5% in December. The data is revealing that employers are moving away from full time employment to part time employment. Unemployment is expected to rise further over the course of 2009, with predictions of a 6% rate by the end of the year by some economists. In November, the National Australia Bank's monthly survey reported that business confidence continues to fall but the consumer confidence did show an improvement towards the end of the year due to lower interest rates and petrol prices

September quarter inflation recorded a 5% annual rate. Whilst this data revealed a continuation of inflationary pressures, events over the December quarter have meant that inflation is not a key concern as slowing economic growth is likely to mean that inflation will head lower over 2009. However, whilst a return to the target band is unlikely in coming quarters, likewise rate rises are also not on the cards in the immediate future.

Whilst a flight to quality initially saw the Australian dollar fall out of favour, by the end of the year investors began abandoning the US dollar as interest rates there moved to zero and the budget deficit blew out. On a quarterly basis, the Australian dollar fell 11.3% against the US dollar. However, on a monthly basis the Australian dollar rose in December by 7.4% from US 65.58 cents to US 70.46 cents by month end.

Without a doubt, the Australian economy enters uncertain waters after a tumultuous December quarter end in 2008. If policy makers are to prevent a recession, they will need to generate a positive increase in the housing sector to counter slowing business investment in Australia. It does not help that recent economic data indicates that the unemployment rate will move higher, as the global financial crisis hits home. Thus with uncertainty set to continue for the global economies and with recent data indicating a further slowdown in the domestic economy, 2009 is going to be a tough year.

March 2009 Quarterly Market Outlook as at January 2009

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US growth was negative in the fourth quarter, with indicators continuing to show weakness, which is expected to continue into the first quarter of 2009.

Following the collapse of Lehman Brothers in September, the credit crisis has deepened, exacerbating the economic decline that has been in progress since December 2007.

Dominating events over the period was the gyrations in financial markets. Originally thought to be localised to subprime mortgages and housing finance, the crisis proved to be more wider than initially perceived. The takeover of Freddie Mac and Fanny Mae by the US government in September 2008 was aimed at averting serious risk to the financial system and keeping money available for mortgages. However, this was not the only issue facing markets in September as one after another financial institutions found themselves in trouble as a result of the easy credit and leveraging experienced since 2002. The end result was an almost grinding to a halt of credit, further government bail out packages and end to Wall St as we knew it.

To illustrate this, the Federal Reserve (Fed), has since the middle of September, increased its balance sheet from \$940 billion to over \$2.2 trillion as a result of various lending and acquisitions schemes. Furthermore, the Fed cut official interest rates from 2% in September, to close to zero (0%-0.25%) to encourage economic growth. The use of a range in the month of December came as a surprise to markets.

The earlier rejected Troubled Assets Relief Program (TARP) program proposed by Treasury was approved in October as the US\$700 billion bill was finally passed and signed by the US congress. This fund was originally set up to buy illiquid mortgage backed securities and harmful assets from financial organisations. However, the Bush administration did its part to combat the ongoing financial crisis and recently gave emergency loans using TARP funds to US car makers GM Motors and Chrysler worth \$US 13.4 billion, \$19 billion in Australian dollar terms.

In other areas of government aid, the Federal Deposit Insurance Corporation (FDIC) increased and extended its deposit guarantees and also offered guarantees to interbank markets over the

quarter.

During the quarter, the US elected a new president, with president-elect Barack Obama outlining plans regarding large future spending by his new administration and aims to boost investment in roads, bridges and public buildings in order to create 3 million jobs. This came after bleak employment data, with the unemployment rate rising to 6.7%, its highest rate since 1993.

Going forward, financial sector losses from securitised mortgages and credit facilities, together with the a slowing economy, will mean that banks and other financial institutions will need to continue to raise more capital and that banks will be unwilling to extend credit. Thus with weaker demand and tighter credit availability, businesses will be reducing capital expenditure, lowering inventories, putting off the hiring of new employees, as well as dismissing current employees. As a result, higher unemployment will result in a restraint in consumer spending in the next quarter.

With the above thoughts in mind, it may take a couple of years or more before normal spending patterns recommence. Large wealth losses from falling house prices and falling equity prices is causing negative wealth, and will most likely hamper consumer spending in 2009. The seriousness of the current environment has incited calls for more severe and coordinated rate cuts from global central banks, and for more government stimulus packages. On the other hand, it is likely that inflation will fall quickly and official interest rates will stay low for a prolonged period. This should provide a favorable environment for economic growth in the US if not in the latter part of 2009 then 2010.

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Europe



The euro area officially moved into recession in 2008 with declines in GDP in the June and September quarters. This went relatively unnoticed as events the US dominated headlines. Furthermore in the UK, economic conditions continued to deteriorate in the December quarter due to a slowing down in consumer spending and business investment during the period. The economy contracted by 0.6% in the September quarter, the first fall in activity since 1992. The year-on-year growth fell by 0.3%, from 1.5% in June quarter.

The eurozone economy, experienced similar contraction issues to United States in the quarter, saw limited credit availability, negative wealth effects through falling asset prices, a softer housing market and greater uncertainty due to falling domestic spending. As a response to these weaker conditions, most eurozone governments have already formulated various fiscal stimulus plans to counteract the recessionary pressures.

GDP declined by 0.2% in the euro area during the third quarter of 2008, following on from a 0.2% fall in the June quarter. In the September quarter, household final consumption expenditure remained unchanged as did exports whilst investments fell by 0.6%. In other areas, the euro area unemployment rate has been edging up recording a rate of 7.7% in October and 7.8% in November. Sentiment has also been declining with recent figures falling in December to the lowest level since records began in 1990.

GDP growth is expected to remain lower for longer than in other regions, in large part due to the ECB (European Central Bank) being slower to cut interest rates. Inflation stood at 1.6% in December 2008 with the outlook for lower commodity prices and excess capacity expected to lead to lower inflationary pressures. Due to the weak growth outlook in the euro area, the ECB cut official rates by 0.5% to 2% in January, down from its 2.5% rate set in December.

In United Kingdom, conditions have deteriorated dramatically. Economic growth slowed over the course of 2008, with latest data for the September quarter showing that the economy contracted 0.6% over the period. Increasing redundancies in a slowing economic environment and amidst tight credit conditions saw the unemployment rate edge up to 6.1% at the end of November. On the positive side, inflation is easing with December recording a 3.1% rise, following a 4.1% rise in November.

On the UK economic front, indicators for the manufacturing and service sectors, along with mortgage and house building data indicates weakening activity in the next few quarters. This would curtail the outlook on consumer spending and business investment. While unemployment is to rise further, inflation is expected to fall due to the recent falls in food and energy prices.

The main issue for UK economic growth will be, whether the additional stimulus from the government entices consumers and companies to start spending. The fact that the UK has heavily debt-laden households does not aid the situation as there is a likelihood they will take this opportunity to reduce this burden.

As with other areas, uncertainty persists in Europe. Slower growth is expected to persist over coming quarters. Of importance will be the policy response from officials, with the euro area expected to remain lower for longer due to its slower response to current conditions.

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Japan



Economic conditions deteriorated over the December quarter as inflation also headed lower. The Japanese economy has continued to experience falling exports and production, consumption has also been flat. The business investment outlook for the Japanese economy deteriorated and leading economic indicators fell over the quarter. With this in mind, the Bank of Japan (BoJ) lowered interest rates by 0.2% to 0.1% in December.

Japan has been officially in recession since September 2008 after the Japan's gross domestic product (GDP) shrank for two consecutive quarters. The 1.8% annualised contraction in the third quarter was worse than expected. Japan's GDP is likely to continue in negative territory in coming quarters, as the slowing of the US economy continues its negative impact over to the rest of the world. A return to normal growth is likely to be delayed until the global economy recovers.

Worsening market indicators in the Japanese economy includes but are not limited to declining exports, falling corporate profits, decreasing business fixed investment and weakening private consumption. In addition to this, a relatively flat housing sector, deteriorating business sentiment and sluggish public investment are suggestive of the larger problems facing the economy dependent on export sales to the US.

Japan's exports may continue to decline as the US slowdown spreads to other regions including emerging Asia, and the rising yen could have a further negative impact on corporate profits, resulting in sluggish business investment. On the positive side, falling energy prices will boost the purchasing power of consumers, and private consumption is expected to remain relatively stable.

The Bank of Japan (BoJ) lowered its official interest rate in October and December in an attempt to maintain supportive financial conditions. However, additional measures will be required to boost further liquidity, as the possibility of further interest rate cuts are unlikely to be significant to boost the economy as the cash rate now currently stands at 0.1%. Policy measures taken by the BoJ to date include their proposal to expand its balance sheet by buying more Japanese government bonds (JGBs) and the central bank's plans to buy corporate debt and commercial paper.

The Japanese share market contracted in the December quarter, to be down 42.1% over 12 months. Analysts forecast that Japanese companies face the possibility of further earnings downgrades over the months ahead, despite company valuations remaining expensive. On the flipside, there is a more positive outlook for the Japanese markets over the longer term. This is based on the large fall in energy prices and low interest rates, both of which will aid Japan's equity markets.

Japanese GDP is expected to decline through most of 2009, and recovery will be heavily reliant on local government stimulus and events in the US. Moreover, deflation is raising its head again. The slump in commodities, coupled with a deepening recession, may herald a return of deflation that plagued Japan for almost a decade until 2005.

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Asia ex-Japan



Asia still looks more resilient relative to many other emerging economies, assuming the credit crisis is not drawn out too long. Asian economies, particularly the larger ones or those with flexible government policy, such as China and India, are more likely to continue their growth, albeit at a slower pace.

China is regarded as having the most fiscal flexibility to respond to the slowdown. Although a decline in export growth is seemingly behind much of China's slowing. With Chinese industrial production growth also significantly slowing, Chinese authorities have taken several measures to stimulate the economy.

China announced a US\$586 billion economic stimulus program to aid the economy in November. Given the sharp deterioration in economic conditions, the Chinese government is expected to rely on fiscal and monetary policies to stimulate the economy.

China's exports and imports fell in November and December. With a Chinese newspaper citing customs data (exports) were down 2.8% from the same time last year. The global crisis is credited as being the key factor for the reduction of demand for Chinese goods. Furthermore, imports fell 21.3%. The decline in imports reflects the slowdown in the country's own economy. Chinese consumer spending makes up about 35% of China's GDP.

At the same time as export demand reduces, China has been forced to close thousands of factories. As a result, job losses have been heavy and are likely to accelerate. China's economy has slowed significantly in recent weeks and is forecasted to grow 7.5% in 2009, the slowest pace in 20 years. Chinese economists estimate that growth needs to remain at 8% if the country is to provide jobs to the 20 million people who enter the work force each year.

China's top leaders began a meeting in December to chart economic policy for 2009. Economists expect that efforts will concentrate on boosting domestic spending. To increase consumer spending, leaders reportedly will look at raising income tax thresholds, as well as increasing pay for state workers, household subsidies and minimum income support.

India is also facing weaker economic growth prospects amid slowing demand for its exports. The government is not in a strong position to respond to the impact of the global financial crisis with supplementary fiscal measures, as fiscal policy is already relatively loose. Quarterly earnings of companies are widely expected to show slower growth or a fall because of weakening demand and tighter margins. Global deleveraging and moves to reduce risk exposure will impact the Indian economy, with real GDP forecasted to grow only 6.2% in fiscal year 2008/09 (April to March) and 6.1% in 2009/10. Despite the reversal of the commodity price boom, India will remain highly vulnerable to upward inflationary pressures in 2009.

Asian economies are significantly slowing. On a regional basis, Vietnam and Indonesia may face greater external weaknesses, whilst China and India remain stronger. Moreover, Singapore is forecasted to experience negative growth in 2009. Concerns regarding the protraction and deepening of the global economic slowdown is outweighing investor confidence in the region. Going forward, growth in 2009 will slow across the region, and inflation will fall.

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INVESTMENT SECTORS

Australian Shares



Despite a late rally in the Australian share market, local equities finished down 21% for the December quarter (as measured by the All Ordinaries Index). This is its fifth consecutive quarterly decline, as the US financial crisis continued and concerns grew over the growth outlook.

With difficult trading conditions continuing to undermine the domestic market in the December quarter, the All Ordinaries Accumulation Index (including dividends) fell by 20.2% in the last quarter, to be down 40.4% over the last 12 months. Industrials outperformed resource stocks in the December quarter, whilst on a 12-month basis it was the reverse. The S&P/ASX 300 Resources Accumulation Index was down 18.8% over the quarter to be down 35.8% over the last 12 months. The S&P/ASX 300 Industrials Accumulation Index fell by 18.3% over the quarter, to be down 40.0% on a yearly basis.

On a quarterly basis all sectors ended lower, however the more defensive based sectors such as Healthcare (-6.3%), Utilities (-6.8%) and Telecommunications (-8.9%) were the best performers. Amongst the worst performers were REITs (-34.7%) and consumer discretionary (-25.5%). Large capital raising requirements held back the REITs sector, whilst consumer discretionary stocks struggled in the slowing economic environment. Although the government's stimulus package saw this sector perform well over the month of December.

On a stock basis, top performers which ended the quarter in positive territory were Newcrest Mining Limited (+22.7%), with US investment fund Capital Group announcing it held a 5% stake in the company, Sino Gold Mining Limited (+10.6%) and Tatts Group Limited (+17.2%). However, on the other end of the spectrum Babcock & Brown Limited (-92.0%), HFA Holding Pty Limited (-91.42%) and NRW Holdings Limited (-87.35%) ended in negative territory for the quarter.

On the corporate news front, BHP withdrew its offer for Rio Tinto. BHP end the quarter down 1.8%, whilst Rio Tinto fell 55% as it struggled with its debt levels. In other areas, Telstra was removed from the tender to build the national broadband network as it failed to comply with the requirements of the tender process. On the earnings front, many companies announced earnings downgrades over the quarter as slowing growth begins to impact on the bottom line. Commonwealth Bank and Qantas were amongst the big name companies to announce earnings downgrades over the quarter.

Recent government spending and similar global schemes to support the softening financial and economic systems have begun to take effect. Some confidence has started to return to the markets, but the system remains fragile. A situation which will continue for a while going forward. Weak economic conditions in the major developed economies and the slowing of most of the emerging economies will have a negative impact on equity markets. 2009 will be a challenging time for the local equity market.

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International Shares



World share markets continued to fall for the first part of the fourth quarter, due to fears about rising systemic risk in global financial systems. The threat of a looming global recession and falling corporate earnings did not help. As the year drew to a close, the US was officially declared to have entered into recession by the National Bureau of Economic Research in December 2007.

Policy officials around the world announced monetary policy easing and fiscal policy responses to support the ailing global financial system and stimulate economic growth over the quarter. With all the major G7 economies cutting official interest rates in their respective regions in December. As a result of the unanimous support by global governments, we have seen signs that the various policy responses starting to filter through to money markets. With the above issues in mind, all major global stock markets suffered negative performance over the quarter. While the MSCI World ex Australia Accumulation Index for developed countries was down 21.6% for the quarter in USD, it was down 11.6% in AUD terms. Over 2008, global shares fell 40.4% in USD terms, down 25.8% when measured against the AUD. A weaker Australian dollar has cushioned the effects of domestic returns in global shares over 2008 for Australian investors.

2008 was the worst year for US sharemarkets since 1931, with US equities currently in a deep bear market. The economic recession combined with the credit crunch have weakened investor sentiment and the outlook for corporate profitability. The US Dow Jones Industrial fell by 19.1% over the quarter to be down 33.8% for the year. The S&P 500 was down 22.5% on a quarterly basis, to be down 38.5% over 12 months. Furthermore, the NASDAQ was also down 24.3% over the quarter, to be down 40.5% over 12 months. This yearly return is the NASDAQ's worst yearly performance since its creation in 1971.

In Europe, the UK FTSE was down 9.6% for the quarter and down 31.3% annually. The German market index, the DAX, was down by 17.5% over the quarter, to be down 40.4% on a yearly basis. The French CAC40 fell by 20.2% on a quarterly basis to be down 42.7% over 12 months. As in the US, European markets did not escape the credit crisis with several large banks needing to be rescued by governments and other institutions. Despite numerous stimulus packages, both UK and European equity markets will struggle in 2009 as economic conditions remain unfavourable.

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Asian markets continue to come under pressure from the combined effects of the credit crises and concern about the impact of a US recession. The Japanese market was down 21.3% in the December quarter, to be down 42.1% over 12 months. Hong Kong was down 20.1% over the quarter, to be down 48.3% on a 12 month basis. Singapore was down 25.3%, down 49.4% over 2008. Despite the Chinese Shanghai B market rising a considerable 20.0% after the announcement of rate cuts and a massive economic stimulus package in November, its market fell 20.6% in the December quarter. On an annual basis, its market is down a massive 65.3%. Going forward, Asian markets are expected to follow global markets lower over 2009, although anticipation of a recovery in 2010 should boost returns towards the end of the year.

Japan's equity market, like world markets, was volatile in the last quarter of 2008. The global credit crisis, as well as increased economic gloom and political turmoil in the country, pressured Japanese equities. Japanese companies have been hit by falling export demand from the United States and Europe. The export slowdown has pressured corporate profits as has the rise in imported material costs earlier in the period.

The global economy is expected to remain weak in 2009, while inflation is expected to moderate significantly. The financial crisis and the US recession have spread, affecting both developed and emerging economies. Most developed economies have already slipped into recession, while countries such as China and India are expected to expand in the mid single digit range. Other emerging economies which are generally dependent on export growth, will also feel the pinch of the global growth slowdown and are expected to grow approximately 1.0% in the coming year.

Australian Fixed Interest



The Reserve Bank of Australia (RBA) cut interest rates by a total 2.75% to 4.25%, over the December quarter as global credit conditions intensified and the financial system almost came to a halt. As the credit crisis split over to the real economy, growth and inflationary expectations were cut, with 2009 expected to see more cuts to interest rates in an attempt to stimulate growth.

The 2.75% cut to official interest rates over the quarter was the largest quarterly cut to rates since the current system of monetary policy setting was established in 1990. Whilst cash rates decreased over the quarter, so to did other areas of the fixed interest markets as slowing growth prospects and a flight to quality led to a strong rally in bond yields.

90-day bank bill yields started the December quarter at 7.05% and ended at 4.3%. Resulting in the UBSA Bank Bill index returning 1.7% over the December quarter, and 7.6% over 2008. 10 year government bonds moved from 5.39% to 3.99% over the quarter. This equates to a return in the UBSA Composite Bond index of 6.3% over the December quarter, and 15.0% over the past 12 months. Australian fixed interest was the top performing asset class, something that has not happened since 1992.

The outlook for longer term interest rates remains at the mercy of the global conditions, as uncertainties continue to persist. In addition, slowing domestic conditions will also tend to favour a move to lower interest rates. Until these uncertainties subside, the trend of low government yields will remain. The RBA stated in its December policy meeting that it will continue to monitor future developments in the domestic economy and make the appropriate adjustments to encourage sustainable growth. In this environment, expectations that further monetary policy easing is likely in coming months.

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International Fixed Interest



In the last quarter of 2008, central banks embarked on a rate cutting campaign designed to help ease the crisis that has gripped the world's financial system. These reductions were aimed at avoiding a deep global recession and possible deflation, with previous concerns about rising inflation abandoned by central banks around the world.

In the United States, the Federal Open Market Committee (Fed) continued on its rate cutting campaign from a rate of 2% in September, to a range of 0% to 0.25% by year end. The use of a range in the month of December came as a surprise to markets.

The Fed's focus will shift to open market operations and other measures to stimulate the economy to support global financial stability after the Fed's December rate cut. Examples of this support may possibly be the Fed expanding its balance sheet, buying agency debt and treasury securities. In fact, the Fed has already revealed its Term Asset-Backed Securities Loan Facility (TALF) to aid the flow of credit through to consumer finance, student loans and mortgage markets.

Credit all but dried up over the quarter, as the credit crisis deepened in September and banks almost stopped lending to each other. This was reflected in the gyrations of the London Interbank Offer Rate (LIBOR), which is the benchmark for global inter bank lending and corporate borrowing rates. LIBOR ended the year 1.18% above the Fed's official interest rate, with its highest peak in late September being 3.3% over official rates.

In Europe, the economic situation has continued to deteriorate and is continuing to do so at an amazing rate. Whilst initial European Central Bank (ECB) policy response was slow, it did reduce key interest rates by 1.75 % over the December quarter. Over the same period, the Bank of England (BoE) reduced rates by 3%. These decisions are amid concerns that the UK economy is now in recession, with inflation falling sharply.

As at the end of the December quarter, official interest rates stood at 2.5% in eurozone and 2.0% in the UK. However, subsequently in their recent January monetary policy meetings, the ECB and BoE reduced rates by 0.5% to end at 2.0% and 1.5% respectively. Expectations are that further monetary policy easing will follow in coming months.

On the back of an ailing Japanese economy, the Bank of Japan (BoJ) has reduced interest rates to end 0.1% by the end of December. Worsening market indicators for the region including declining exports, falling corporate profits, decreasing business fixed investment and weakening private consumption prompted this decision. In addition to this, a relatively flat housing sector, deteriorating business sentiment and sluggish public sector investment are suggestive of the larger problems facing the economy. In its latest policy meeting in January, the BoJ indicated, that whilst the outlook for the Japanese economy is poor, there is now very little room to move for interest rates.

Monetary policy makers continue to support their respective regions and encourage economic growth. Central banks of major developed G7 economies slashed interest rates to combat the global crisis affecting their respective regions. The turmoil in the global financial markets has resulted in investors flocking to the safe haven of government bonds. While global equity markets were down in the quarter, global bond markets rallied. Led by US treasuries, global bond markets posted a strong end to the year, sending bond prices soaring and US 10 year government bonds yields lower; to levels last seen in the early 1950s.

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Property Securities



The Australian REITs sector moved lower over the December 2008 quarter posting a total loss of 34.7%. Moreover, in what has been an unprecedented year for Australian shares and the listed property sector, Australian REITs generated a negative performance of 58.7% over 2008.

There have been numerous issues facing the REITs sector in recent months. Many REITs have gone through a period where capital has been raised, profit estimates have been reduced and distributions cut to reflect underlying earnings. Going forward, the property sector is yet to see the full possibility of facing falling property values, increased vacancy rates and softer rental growth through 2009.

Although the credit market remain restricted, some A-REITs have recently begun to refinance their short term debt facilities including the likes of Centro Property Group and Colonial First State Property Retail Property Trust just to name a few. On the other hand, some A-REITs announced that they are trying to improve their balance sheets and their liquidity outlook such as Macquarie Office Trust, who are looking at repaying or refinancing their debt facilities due in September 2009.

On the property subsector level, all subsectors were down for the quarter. The Retail sector (-23.12%) was the strongest performer for the quarter, although was down 39.1% over the year. This does not come as a surprise as the Rudd government injected \$8.7 billion to boost consumer spending prior to the Christmas period. On the other side of the spectrum, Industrials was the weakest property subsector falling by a massive 70.8%, to be down 83.8% over 12 months. Other subsectors fared slightly better over the quarter including the Diversified and Commercial sectors, returning a fall of 36.3% and 40.0% over the quarter, to be down 64.1% and 51.7% over a 12 month period, respectively.

All stocks on the S&P/ASX 300 A-REIT ended in negative territory for the December quarter. The best performing stocks for the quarter were Challenger Diversified Property Group (-0.8%), Bunnings Warehouse (-8.1%) and CFS Retail Property Trust (-13.6%). On the other side of the ledger, ING Industrial Fund (-91.0%), Valad Property Group (-82.1%) and Tishman Speyer (-81.1%) posted extremely weak performances. Both the ING Industrial fund and commercial property investor, Tishman Speyer, were beleaguered by concerns over lending covenants.

The Australian REIT sector will face many concerns during 2009. Given slowing global growth and falling asset values, the risk to property securities is on the downside. Weaker trading conditions and negative sentiment from investors will most likely continue for most of 2009.

March 2009 Quarterly Market Outlook as at December 2008

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Stock Market Indices as at 31 December 08



Stock Market Indices	1 yr % pa	3 yrs % pa	5 yrs % pa
ASX All Ordinaries Accumulation Index	-40.4	-4.2	6.3
S&P/ASX 300 Industrials Accumulation Index	-40.0	-6.6	4.1
S&P/ASX 300 Resources Accumulation Index	-35.8	4.5	16.8
S&P/ASX 300 Listed Property Accumulation Index	-55.3	-18.1	-3.9
Dow Jones Industrial Index - US	-33.8	-6.4	-3.4
Standard & Poors 500 Index - US	-38.5	-10.2	-4.1
Nikkei Dow Index - Japan	-42.1	-18.1	-3.7
Dax Index – Germany	-40.4	-3.8	3.9
FT-SE 100 Index – UK	-31.3	-7.6	-0.2
Hang Seng Index - Hong Kong	-48.3	-1.1	2.7
MSCI World Acc Index net divs in \$A	-25.8	-6.8	0.8

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