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Market update

January 2008 Market Commentary

Market weakens in January

January 2008 will be long remembered as the month when share markets around the world finally awoke to the potential financial market melt-down. The issues that have been affecting the bond markets for the past six months finally registered on the horizon of share investors, especially those with an interest in financial shares such as banks. There are fears that the liquidity freeze and bond market turmoil could end up sending the US economy into recession with follow-on effects to the rest of the world.

The Australian share market fell by 11% over the month, while global shares fell by 9%. These were the worst monthly performances since October 1987. In Australia the Industrial index fell by more than the broader index but Resources outperformed the index, falling by only 8.4%. All consumer related sectors were weak amidst fears that the economy would follow the US economy into probable recession.

Bank shares were sold off savagely for fears of rising defaults, while insurers were also hurt following natural disasters which are expected to hurt profits.

Global shares were slightly better with the US S&P 500 index falling by 7.7%, the London sharemarket was down 10%, the German DAX was down 15% and the French CAC index fell 14%. Even emerging markets, which had withstood earlier weakness were sold down ending 14% lower for the month.

Bond market returns were actually positive as the flight to the security of government bonds saw these increase in price over the month. Australian bonds rose by 1.2% while global bonds were 1.8% better. These good returns did however mask some mixed performance with non-government bonds continuing to underperform as forced selling from hedge funds caused the prices of many of these assets to fall. In the short term market the US Federal Reserve Bank is cutting the cash rate sharply to support the financial markets and hopefully the economy, while in Australia the Reserve Bank of Australia has been raising rates to try to cool growth and combat inflation.

Other asset classes were also volatile, with geared Listed Property Trusts (LPT) falling further over the month - down 14.3%, and down 25% for the quarter. This asset class is starting to look better value than it has been for some years. The Centro saga has continued and other geared companies are now also under a cloud. Direct property continued to give small positive returns.

The only ray of sunshine amidst all this gloom is that prices of many assets are better value than we have seen for some time, and there will be opportunities for investment opening up in due course.

Monthy performance summary

January 2008	Performance (income and capital gain or loss)	
	Month	Quarter
Australian Shares (S&P/ASX 300 Accumulation)	-11.0	-15.9
International Shares (MSCI World ex-Aust)	-9.1	-8.9
International Shares (MSCI World ex-Aust) USD	-7.6	-12.3
Unlisted Property (preliminary estimate)	0.2	5.6
Listed Property Trusts	-14.3	-25.2
Australian Bonds (UBSA Composite Index)	1.2	1.5
Cash (UBSA Bank Bill)	0.6	1.8
Appreciation of $A against $US	1.6	-3.7