



SHARE MARKET UPDATE

Like you we are watching nervousness and uncertainty play out on world markets, reminding us all that Australia is part of the global economy.

We have spoken to Russell Investments, who continue to monitor the situation and they have provided us with the following information.

Market Action

- A gloomy global economic outlook sent investors on a mass exodus out of risky markets Thursday and into the refuge of US government debt, sending yields to yet another round of new 2011 lows. The intense flight into safe-haven Treasury's forced benchmark 10-year yields down more than 50 basis points since last Friday; there hasn't been such a large one-week drop in yields since November and December of 2008, when Lehman Brothers collapsed, sparking a financial-market frenzy. This morning, the 10-year US Treasury note yields 2.40%.
- Investors across the globe have been buffeted by economic and political turmoil in recent days. In the US, fears have turned from worries about a possible default by the US government to a weakening economic outlook. A string of recent weaker than expected economic data have pointed to a possible slowing of the recovery.
- In Europe, leaders are still working through a longer term solution to the sovereign debt crisis impacting peripheral countries such as Greece, Portugal and Spain. Investors are increasingly nervous that troubles are spreading to Italy and Spain, driving down stocks across the region and sending borrowing costs of peripheral nations soaring.
- European stock markets plunged 3.4%, the largest one-day drop in more than a year, while US major indices continued the falls, ending down around 4.5%.

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- The breaking of short term technical levels, automated trading systems and the imposition of automated sell trade curbs in the US, fed the worries of traders.

Keeping market moves in perspective

- Despite last night's extreme movements, there was nothing in terms of a fundamental change in the world economy that happened in the past 24 hours. The fact is we remain in a volatile market environment, set against the backdrop of a grinding global recovery.
- It is helpful to put last nights' moves against the backdrop of the following key fundamentals:
 1. The recent softer US data is consistent with our long held view that economic data overseas will oscillate between good and bad for a while yet, but that the net effect is the continuation of a grinding recovery over the next year or more.
 2. Despite Eurozone debt concerns, core countries such as Germany continue to deliver strong growth, and one of the best performing share markets in the world over the past year – despite everything going on with Greece.
 3. Equity valuations remain ok (on the cheap side of longer term averages). US earnings in particular remain robust with 75-80% of reporting companies in the current earnings season beating expectations – 43% of these by more than 5% (though we do expect US earnings growth to slow to a more sustainable pace going forward).
 4. US government bond valuations are now considered to be at extremely expensive levels. The debt ceiling/deficit cutting issues will be worked through and US default is an extremely low probability going forward.

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5. The central scenario for Europe is that sovereign debt worries will continue to muddle through for now, but with any agreement on a long term solution still a way off yet.
6. Emerging economies remain the key drivers of global growth. Central scenario is for a soft rather than hard landing in China (slowing to 8% pa or so – still impressive)

Key Message

- Whenever there are large market-driven movements like last night, it is likely there will be continued volatility until things settle down again.
- The key for investors is not to panic. We remain confident that while market conditions will continue to be volatile over the rest of the year, now is not the time to make knee-jerk reactions and run to cash (as many did in the depths of the GFC – with terrible results in the ensuing recovery).
- Keep your head, stick to your long term strategic plan, and look through the current noise to keep headlines in perspective (especially against the back drop of market valuations and economic fundamentals). There is nothing in the past week or so that should change your medium to long term investment strategy.

Volatility of this nature has us all concerned and we will remain in regular contact with Russell and our other research providers over the days and weeks ahead. We will take all necessary steps to keep you apprised of any new developments and ask that you contact us with any specific concerns.

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