

Ausbil Dexia Limited Investment Markets

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Ausbil Dexia Limited
Australia

International Economic Overview

Overview

The recent strains in equity and credit markets create constraints for the global recovery. Nevertheless, these pressures do not derail the view of a “sustained but uneven” global recovery. A crucial element in this view is that global growth is being driven far more by Asia, with the US delivering 3% to 3½% growth over the course of 2010. China’s economy will continue to grow rapidly this year and next but at a slower pace relative to recent history. Moreover, the major central banks will not tighten monetary policy aggressively. The ongoing monetary stimulus will continue to provide support against the problems of poor credit availability and budget uncertainty in many industrial countries.

Within the euro area, divergences are likely to continue to grow. The forecast German growth (improving to 2.0% for 2010 for example) reflects the lower Euro, plus Germany’s big trade exposure to high-growth emerging markets. In contrast, periphery countries face painful prospects, with heavy fiscal tightening, weakened banking systems and poor competitiveness.

There is a sizeable risk of public debt restructuring in Greece, Portugal and Spain in coming years. Fiscal and structural reforms proposed in those countries so far may not achieve the near impossible task of achieving a return to fiscal sustainability and economic growth in coming years. Nevertheless, the rescue measures should be enough to sustain these countries without debt restructuring for the next 12-24 months at least and ensure that any eventual restructuring is not overly disruptive for banks and investors.

For the UK, the key message is that recovery is more sustainable in terms of combining growth with a decline in the fiscal deficit, relative to other problem European economies.

For the US the growth forecasts are lower for 2010 and 2011, reflecting the erosion of financial conditions and the recent setback in housing-related indicators. Unfortunately, there is now little offsetting currency boost, with the trade-weighted USD up due to the flight to safety by markets.

Among China and other Asian economies, the data flow has generally been stronger than expected, creating some cushion to absorb the potential slowdown in exports to the US and Europe. The change in China’s currency policy is not expected to lead to rapid near-term currency appreciation. China’s imports from ASEAN countries rose 70% year on year over the January-May period, helping to propel the broadly spread upturn. China and the non-Japan Asian economies will likely generate about 40% of real global GDP growth (at current exchange rates, a higher share at Purchasing Pricing Parity exchange rates), roughly twice the contribution of the US and more than four times the European contribution.

For Japan, the growth forecasts continue to surge, lifted by the boom in exports to China and other Asian economies. This has a spill over to business investment and jobs. (Exports to China equal 2.5%-3% of Japan’s GDP, while exports to China are about 0.5% of US GDP). Japan’s GDP is expected to grow by 3.5% for this year and it’s growth will likely far outpace that of the Euro area and for the first time since 1991 and also outpace that of the US.

As before, major central banks are in no rush to tighten monetary policy, given uncertainties over growth prospects and general lack of near-term inflation pressures. The base case is that the US Federal Reserve (Fed) and the Bank of England (BoE) will keep rates stable for an extended period, with the European Central Bank (ECB) likely to be on hold until well into 2011 and the Bank of Japan (BoJ) on hold even longer. Tightening, when it eventually comes, will be gradual, gauged against fiscal difficulties and the health of the banking system.

International Economic Overview

United States

The US economy has slowed largely on the combination of a less supportive financial backdrop and new evidence that housing activity is weakening more than anticipated. There is still recovery with a moderate pick-up in labour demand and rising business spending. But the setback in the financial recovery suggests that monetary policy may need to remain focused on maximum accommodation well beyond the end of the year.

US Federal Reserve officials have indicated that they are prepared to do what it takes to promote financial stability, the key to sustained recovery. Unconventional policy has contributed to healthier credit conditions but recent heightened volatility and lower asset prices present new constraints. Overall financial conditions thus far remain supportive of recovery.

Despite investor uncertainty, the data did indicate that a recovery had been underway ahead of the recent turmoil. Consumer and business spending have held up and small business surveys reflect initial signs of renewed optimism. Nonetheless, housing sales have been weak and lower building permits already promise weaker residential construction in the quarter ahead.

Despite existing home sales falling by a reported 2.2% in May, this figure was artificially low in part due to processing issues. This soft data was overshadowed by an even sharper pull-back in new home sales that fell to 300,000 below consensus of 410,000 and a new record low.

It's hard to escape the conclusion that the next few months will be erratic; the end of the Home Buyer Tax Credit, where contracts had to be closed by 30 June (signed by 30 April), was recently extended until 30 September.

While housing is in for a flat period, business investment continued to retain growth momentum. Business capital spending is on track to record annualised growth of 20% in the June quarter, offsetting some near term weakness in consumer spending. The core capital goods orders series was up 28.7% in the three months to May after growth of 15% for the March quarter.

On the jobs front, initial jobless claims have moderated. After large falls in claims through the second half of last year, claims improvement has stalled over recent months. There was a modest underlying improvement in the recent non-farm payroll employment data.

The US Federal Reserve met and left rates on hold, as widely expected. However, the language of their press release suggested little improvement in the economic recovery since the last meeting. In April the statement said, "Economic activity has continued to strengthen" but now the recovery is said to be "proceeding".

Inflation is slowing to 1%, reflecting the sharp relative decline in housing costs and massive economic slack. Limited private credit demand, an easy Federal Reserve monetary policy and low inflation should cap bond yields for some time.

International Economic Overview

United Kingdom

The UK's new Government's Emergency Budget delivered new spending cuts and tax increases of £40bn, adding to about £73bn of cuts already by the previous government. The budget sees a 'structural' surplus by 2014-15.

The cuts are deep, amounting to some 8% of GDP by 2015-16 with the consumption tax (VAT) increased to 20% from 17.5%. Some departmental budgets have been cut by 25% in real terms over four years. There is a two-year public-sector pay freeze and £11bn cuts to welfare. The Queen's annual salary has been frozen at £7.9mn and capital-gains taxes have been increased from 18% to 28% for high income earners. There is a tax on banks' balance sheets worth £2bn a year.

The Budget is expected to reduce growth by 0.4% over the next two years but increase it over the following three. GDP is forecast at 1.2% in 2010, 2.3% in 2011 and 2.7% in 2014 and 2015.

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Japan

Japan is on the verge of losing its number two status in the ranking of the world's largest economies. For the past decade, Japan has struggled to keep up with the pace of growth in other major developed economies and key emerging economies. China has increased its absolute size to seven times that of Japan, and even some of the Euro economies have increased in size more than Japan in US\$ terms (both exaggerated by the weakness of the Dollar).

Financial market participants now tend to think about Japan and its markets against this backdrop. However, after years of 'disappointments', the cyclical recovery of the economy is on a par with that in the US and Europe-and possibly even better. In addition, following yet another change in the Prime Minister, the conditions for Japan to make progress on its taxation system and its fiscal challenges now appear to be in place. Japan is also in the same continent as most of the key exciting economies of the next decade. Japan's experience and historical success as an exporter should allow it to benefit from the continued emergence of not only China, but also of India, Indonesia and perhaps some of the other Asian economies. Japan should be doing even better than it is on exports to those rapidly emerging nations, and repositioning itself as a provider of goods for domestic consumption in China and elsewhere.

The new administration started in June. Key cabinet members look to be focusing more on fiscal reform than the previous administration. The government now plans to keep fiscal spending over the next three years at this year's level. The election manifesto in which large additional fiscal spending was scheduled for 2011 has already been revised. PM Kan has pointed to the likely substantial increase in the consumption tax rate.

While Japan's financial markets have been turbulent in the wake of the sovereign-debt crisis in Europe, economic data seem to suggest that the upside risk is still larger than the downside. Most importantly, the export recovery is spilling over to private domestic demand by way of a rebound in corporate profits and a modest improvement in labour and income conditions. Recent data indicate that private capital expenditure this year will likely be stronger than the consensus forecasts. This, along with the impressive consumer spending, suggests that the consensus forecast for GDP growth this year (3.1%) is still too conservative.

We expect the Bank of Japan (BoJ) will maintain the current policy rates over the course of 2011. While we expect year-on-year declines in the core CPI (excluding perishables) to get closer to zero in early 2011, core inflation adjusted for special/administrative factors is very likely to stay meaningfully negative through 2011.

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Europe

The European Council has announced that the results of the stress-test carried out by banking supervisors will be disclosed in the second half of July. The test is a “bottom up” exercise aimed at addressing the impact of macro shocks on credit and market risk. It covers over 60% of EU banking sector assets.

Market concerns over European banks are twofold: (1) concerns relating to select European sovereigns, with clear direct or indirect implications for banks and (2) concerns over potential additional clean-up charges on legacy loan books. A credible stress-test could cap concerns over governments’ “contingent liabilities” from the banking sector.

The results of the stress-tests for the major banks should produce no major surprises as these institutions have been recapitalized and their risks are under constant scrutiny by the markets. Credit buffers for the major banks are significant. However, these banks are only part of the market in Europe.

In contrast to other global markets, many European markets have a substantial proportion of public sector institutions; in Spain, for example, Cajas represent around half of total sector assets. In Germany the public sector accounts for more than a third of total assets.

For unlisted, public sector institutions, the regulators’ ability to credibly evaluate cumulative residual losses could go a long way towards restoring confidence in (and among) the banks.

The euro area countries have agreed to the details of the European Financial Stability Facility (EFSF) that probably will be activated on the 1st of July. In addition, the heads of state have made progress in the negotiations on a new fiscal and economic framework. The Stability and Growth Pact (SGP) will be strengthened through strict monitoring and early implementation of tougher penalties. In addition, member states will have to present budget proposals to the European Commission before parliamentary approval. There seems to be a growing consensus that the Euro area will get a permanent crisis mechanism such as a European Monetary Fund. These measures suggest that the fiscal and economic policy of the Euro area countries will be more coordinated, but not yet moving all the way to a fiscal union.

The GDP forecasts for 2010 and 2011 remain unchanged at around 1.0% for each year. But the divergence in the growth forecast between the fiscally strained countries – which announced additional austerity packages – and the less fiscally strained countries has widened further. For the overall euro area, we expect a solid growth rebound in the June quarter, partly caused by temporary factors, but only low GDP growth rates in the second half of 2010 and in 2011.

In Germany the export-dependent manufacturing sector is the main engine of German GDP growth, propelled by higher global growth and the weaker Euro. The increase in employment since November 2009 is stronger than expected and likely to limit the contraction in private consumption. The better-than expected economic performance is also likely to limit the increase in the general government deficit.

The ECB is likely to leave rates unchanged until the middle of 2011 noting that underlying inflation pressures are absent.

International Economic Overview

China

The economy will almost surely continue double-digit annual growth in the June quarter but momentum is fading. This is due to the impact of recent domestic tightening and external weakness. Wage increases and loose liquidity will boost price inflation in following months. External demand growth has probably peaked for now. The revised Renminbi appreciation will be gradual to balance between external and internal growth constraints.

Major real economic data softened in May with the notable exception of exports. Despite the weak Euro, China's exports increased by 48.5% from a year ago, the strongest growth since the collapse of Lehman Brothers. The export recovery was to both emerging markets and developed economies. The trade surplus improved to almost \$20bn, but is still down relative to earlier periods.

Chinese policy-makers have formally abandoned the currency peg as expected. The spot market movement in the first few days after the announcement suggested that the authorities were keen to create some double-sided risks to contain speculation. The currency appreciation will be gradual amid Euro crisis and domestic tightening. Wage inflation should also take some pressures off the currency.

China has just announced the reduction or elimination of VAT rebates for a long list of exports, including steel, non-ferrous, agricultural and chemical products. This is the first time since the global financial crisis began that China has resumed scaling back VAT export rebates. This signals that the Government feels comfortable with the domestic economic prospects in the coming period, and is not very worried about exports and the net export contribution to GDP growth.

The VAT rebate reductions are further evidence that the Authorities will follow-through with its announced intention to resume gradual RMB appreciation. Sceptics should recall that last time Beijing broke the peg, in mid-05, the currency appreciated by just over 21% against the dollar, and about 16% on a real effective basis, before the process was suspended at the outset of the Global Financial Crisis. Once Europe stabilizes, the currency appreciation could return to the 5-7% annualized pace of the 2005-07 period.

The motivation for resuming the reduction of export rebates is to gradually reduce the current account surplus/GDP ratio (which has already fallen sharply, from 10.6% in 2007 to 5.8% last year) and to continue rebalancing the domestic economy and to reduce tensions with China's major trading partners, especially the US. This is also part of the Government's efforts to restrain production which is energy-intensive and polluting.

The Authorities are committed to returning to pre-crisis policies that promote a more sustainable, but somewhat slower rate of long-term GDP growth. The target is now about 8 to 9% growth rather than the double-digit speed of the last half of the last decade. This is consistent with the view that China is slowing, but will level off at a still very healthy pace.

International Economic Overview

Australia

The new Prime Minister has made a limited number of announcements on economic policy, so far. The most significant of these is the commitment to deliver a Budget surplus. The Budget papers show an estimated surplus of \$1bn in 2012-13 and surplus of \$5.9bn in 2013-14.

The other significant economic announcement was the renegotiation with mining companies on the new Minerals Resource Rent Tax (MRRT). The prospect of a negotiated settlement on the resources rent tax should lift confidence in mining and the economy more generally and also have a positive impact on the investment outlook. Overall, from a macro economic perspective little else has changed, so far. The soon to be expected election campaign may deliver other fiscal changes. The Federal Government's commodity research forecaster ABARE (Australian Bureau of Agricultural and Resource Economics) has published their June quarter Australian Commodities report. They have noticeably increased their commodity export forecasts for the year ahead despite trimming their forecasts for world growth. While prospects for the developed economies were reduced, China's economic growth forecasts were increased to 9.9% for 2010 and left at 9.0% for 2011.

ABARE expects that commodity exports will rise to \$A202.5bn (14.9% of GDP) for 2010-11, up 23.4% on last year's estimated commodity export receipts of \$A164.1bn (12.7% of GDP). This is due to the higher expected returns for major commodity exports such as coal and iron ore. Farm exports, at \$A29.1bn for the year ahead, would see growth of 2.5% and is virtually unchanged from ABARE's forecast a quarter ago.

ABARE highlights the big gains in export prices of Australia's big-ticket exports. Iron ore is forecast to increase by 47%, metallurgical coal by 45% and thermal coal by 39%, with exports of these three commodities expected to increase to \$A98bn in 2010-11, a rise of 45.4%. A healthy growth in volumes is also tipped as capacity is expanded with commodity export volumes forecast to rise by 8.7%, with increases in shipments of most minerals and energy exports.

This emphasises Australia's continued leverage to China and its appetite for commodities which, for now, remains undiminished. The terms of trade (export prices divided by import prices) will rise by around 14% for the coming financial year, delivering another strong growth in nominal income and maintaining pressure on the RBA to tighten further, over time.

Fixed Interest

Performance and Outlook

The debt market delivered a strong positive return of 1.51 % over the course of June 2010. Performance for the 12 months was 7.58% as measured by the UBSA Government Bond index.

Ten year bonds opened the month at 5.37 % and closed at 5.09 %. Three year bonds opened at 4.72% and closed at 4.43%. The cash rate was kept stable at 4.50% at the recent RBA meetings. The Bill curve is anticipating one rate increase over the next 3 months. The market outlook is modest RBA policy action, given the current international trading environment.

The Government Bond market strengthened as the equity markets weakened. This was a broad based international movement as riskier assets retreated due to a series of factors. The credit market retreated in major markets with the move to safe, sovereign assets; however, the monthly credit returns in the domestic market remained attractive.

Sovereign debt concerns continued. The cost of insuring Greek debt blew out to levels above those seen at the height of the crisis in May, before the rescue package was agreed. Credit default swap spreads blew out 145bps to an all time high of 1,077.

The sovereign debt blow out came after weak industrial orders data for Europe, fuelling fears that the recovery in Europe is stalling, which will make the debt repayment task more difficult. Australian Bank funding cost measures, such as the spread between 90-day bank bills and the expected cash rate remain elevated but have not deteriorated further.

Against the backdrop of concerns and Europe sovereign debt, economic slowdown and recent soft data out of America, appetite for risk has dried up again. Risk aversion is negative for the AUD and for commodity markets and credit spreads.

Market sentiment is expected to remain fragile and to be susceptible to bad news ahead. It appears that the authorities are keeping European investors satisfied enough to prevent panic erupting but are not delivering excessive support. Heightened market volatility seems likely to be with us for months ahead.

In the US, the Dodd-Frank financial-reform bill agreed to by Congress ended up a concession version that allows banks to retain non speculative swap operations. The Bill still requires passing through the full Congress and if and when this happens, will likely take several years to fully enact.

The legislation will not result in a large 'carve-up' of the major Banks as has initially been feared by many. The 'Volker rule' has been modified, with the proposed Bill placing limits (rather than an outright ban) on many proprietary trading activities and limiting (rather than banning) investments in hedge funds and private equity firms. Banks will be permitted to invest up to 3% of their T1 capital in hedge funds and private equity firms. Derivative regulation will be extended but, at worst, there will be only a limited requirement from the major banks to transfer derivative positions to their broker-dealer divisions.

Asset Class Reviews

Interest rate, foreign exchange and some commodity swap derivative positions can still be held. Rules will facilitate (and to some degree force) the movement of derivative trading onto exchanges and through clearing houses. Credit Default Swap (CDS) contracts unable to be cleared through a central counterparty must be transferred to a separately capitalized subsidiary within two years. Banks will be forced to retain 5% of all but low-risk securitized loans on their balance sheets. Tougher capital standards prohibiting large banks from employing a trust-preferred security structure will be imposed on larger banks that will have five years to adapt.

Regulators powers will also be increased, giving them additional powers to seize and break-up large, complex institutions. A new, 10-member 'Financial Stability Oversight' council will also be established and will oversee financial stability and make applicable recommendations to the US Federal Reserve.

Other regulatory changes include the establishment of a Consumer Financial Protection Bureau, increase in State based consumer protection powers, national minimum home mortgage underwriting standards and an increase in federal deposit insurance (to \$250,000).

Financial institutions with over \$50bn and hedge funds with over \$10bn in assets will be liable to pay fees totalling \$19bn, to be paid over five years which will be used at least partly to fund the regulatory and other costs arising from the bill.

Legislation making it easier to sue credit rating firms was modified but still allows investors to sue rating agencies for "knowing or reckless" failure. The SEC has expanded powers to fine or deregister rating agencies.

From a credit market perspective, the revised legislation certainly looks to be a positive in that it will likely de-risk bank earnings and balance sheets while at the same time not impacting them overly or tightening equity funding sources.

Foreign Exchange

The market has been cautious about expecting further gains in the AUD after its spike to a five week high above 0.8850. This came in the wake of China's announcement it would implement more currency flexibility, which appeared to signal a positive tone on that economy's growth prospects.

While the souring US growth outlook and the improved outlook on the domestic mining tax gave the AUD some support it is more relevant that commodity prices and risk appetite would both need to recover for the currency to resume an upward trend.

Worries about US economic growth faltering due to a double dip in housing activity continue.

There is likely to be some recognition of China's change in its currency setting. This will be helpful in reducing global imbalances. However, it will be far from overwhelming. US President Obama said that while "the initial signs were positive", "it is too early to tell whether the appreciation is sufficient to allow for the re-balancing that we think is appropriate".

We have significantly reduced our AUD/USD forecasts for the next 3-4 months under the assumption that the current unexpected bout of risk-aversion could last for several months. China and Asia will continue to grow strongly and the RBA will increase official rates. The AUD/EUR will resume its appreciation. Implicitly we're assuming that a new global financial crisis isn't underway, otherwise the AUD/USD would fall well below 0.8000 over the second half of the year.

The recent slide in the AUD's trade-weighted index suggests that a significant degree of global economic slowdown has been priced into the currency. The currency fell by 30% over three months during the Global Financial Crisis in 2008. So any further significant slide would require a global recession to be priced, most likely triggered by another global financial crisis.

Australian Equities

The Australian equity market closed the month 2.7% lower, which has left the market down 10.1% for the calendar year to date, but up 13.1% for the 2009/10 financial year. The equity market was mainly driven by continued concerns over European sovereign debt; moderating growth expectations in the US and China, and the implications for the rate of global recovery. Domestically, the market also continued to deal with the uncertainty around the proposed Resource Super Profits Tax (RSPT), the potential for a profits tax to be extended to other sectors, and a change in the Office of Prime Minister.

In major company news, Telstra announced that they had signed a non-binding agreement with the National Broadband Network which covered compensation for the use of the company's infrastructure. Earnings guidance by companies brought more downgrades (Macquarie Group, IAG, Brambles). M&A activity continued to increase, highlighting the under leveraged nature of corporate balance sheets. News Corporation announced an offer for the remaining 60% of BSkyB whilst Amcor acquired further packaging assets in the US.

Economic data remained mixed during June. Housing Finance and consumer confidence were softer while the unemployment rate fell 0.2ppt to 5.2%. Hours worked increased 4.2% (year-on-year) providing a strong backdrop for household income following a 4.8% increase in the minimum wage from 1 July 2010. GDP increased +0.5% in the March quarter (in line with market expectations). The RBA left interest rates unchanged at 4.5% while the AUD rebounded slightly with improving sentiment, finishing the month at US 85.5¢.

In commodities, spot oil rose (TWI +2.2%), supported by the shift in China's currency policy, which was seen as potentially stimulatory. Base metals declined (CRB Index -1.9%) over concerns of slowing global growth. Spot gold rose 2.5% in USD terms, supported by financial market volatility and concerns over government debt.

The Resources sector (-1.3%) outperformed Industrials (-3.2%), as the perceived regulatory risk surrounding the RSPT reduced. The smaller companies, represented by the S&P/ASX Small Ordinaries (-3.7%), underperformed the large cap stocks (-2.3%), represented by the S&P/ASX 50 Leaders Index.

At a sector level, defensive sectors such as Telecommunications (+9.2%), Utilities (+1.9%) and Consumer Staples (+0.6%), were the best performing sectors with the major stock contributors being Telstra (+10.5%), SingTel (+2.9%), AGL Energy (+6.3%), APA Group (+8.3%) and Metcash (+12.7%).

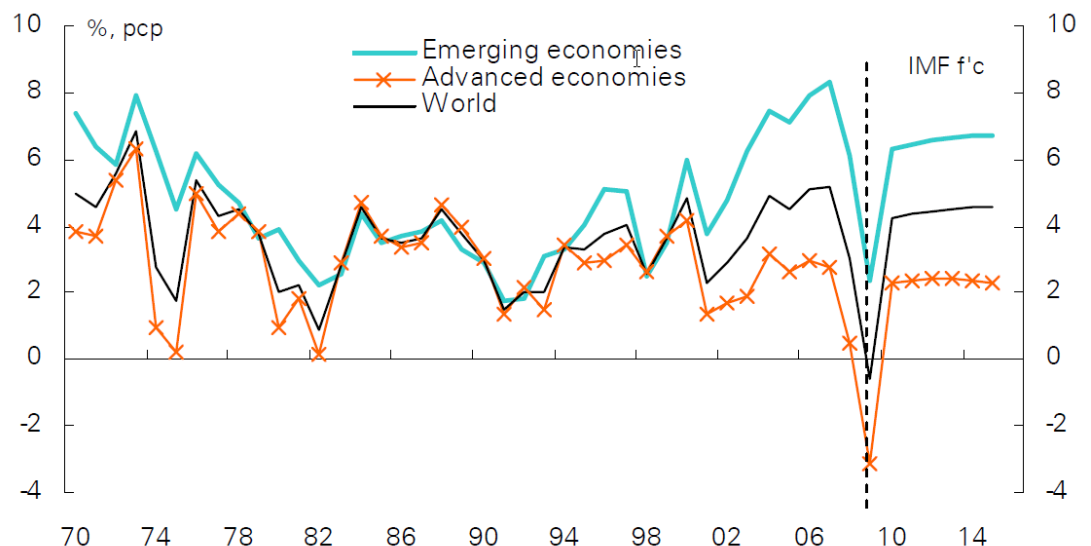
Industrials (-7.0%), Consumer Discretionary (-5.1%) and Financials ex REITs (-4.7%), were the worst performing sectors over the period. The major underperforming stocks were Elders (-61.6%), Downer EDI (-42.6%), News Corporation (-7.7%), Aristocrat (-10.7%) and Macquarie Group (-14.3%).

Significant dispersion of stock valuations is creating opportunities

Global share markets continued to lack confidence during the last month of the domestic financial year. Even though the global economy is showing signs of improvement, recent economic data suggests the pace of growth may be slowing, while the uncertainty regarding European sovereign debt continues to overhang the European economy. In Australia, the Federal Government's Resources Super Profits Tax ('RSPT') proposal and the public advertising battle with the Mining industry has not assisted with market confidence. This uncertainty has led to falls in equity market share prices and has resulted in a significant dispersion of stock valuations.

The Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) continue to point to economic expansion, albeit at a different pace across countries and regions. Economic activity continues to improve in the US, Japan and notably China. Market impressions regarding China's growth prospects most recently oscillate between unsustainable and slowing. We expect China GDP growth to slow from low double digit to high single digit growth. Meanwhile, the weaker Euro economies remain under pressure with the fiscal spending cuts aimed in addressing outstanding sovereign debt likely to result in positive, albeit lower GDP growth. Germany is an exception, with the weaker euro dollar assisting their export competitiveness. Overall, the rate of global GDP growth is likely to slow. The Chart below illustrates the continued level of GDP growth and the extent of the potential slowdown.

World GDP Growth



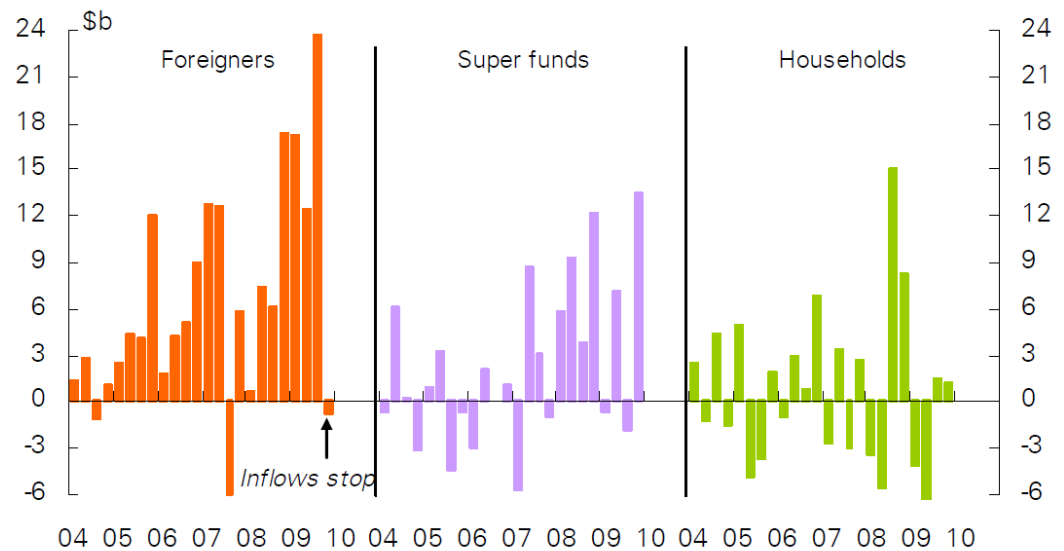
Source: IMF

In Australia, the announcement of the proposed 'RSPT' in late April was anticipated by the market but the punitive parameters were a surprise for all investors, especially international equity investors. Anecdotally, this has resulted in an increased domestic political risk premium. There was additional anecdotal evidence from our discussions with market participants that international equity investors sold out of Australian shares as a result of this political uncertainty. The chart below illustrates how international investors were

Australian Equities

already withdrawing from Australia prior to the 'RSPT' announcement. As a result of the proposed RSPT, the public relations battle between the Federal Labour Government and the Mining industry resulted in the sensational replacement of Prime Minister Kevin Rudd. However, at the time of writing this report, the new Gillard Government had agreed to a compromise with the mining industry.

Equity Market Inflows



Source:ABS

The slowdown in global GDP growth has in some instances led to equity market earnings revisions. In addition, the equity market volatility has also led to a magnified dispersion of sector PE relative valuations. The share prices of companies that display defensive earnings characteristics currently trade on a PE relative multiple that suggests a 40% premium to market. Conversely, cyclical industrial stocks are trading at share prices that reflect a 20-30% PE relative discount to market, while selective REITs are trading at share prices below conservative net tangible asset valuations. However, the most significant discount is seen in the Resources sector where share prices have been adversely impacted by global GDP growth concerns, China growth concerns, and by the proposed 'RSPT'. This PE relative discount ranges from 40% to 60% to market, with smaller resources stocks displaying the largest discounts.

In summary, global equity markets are concerned with the rate of global GDP growth and there is increased anxiety about a possible double dip recession scenario – an event which we still view as being less likely. The Australian equity market has been influenced by the softening macro economic environment and by the political concerns regarding the introduction of the 'RSPT'. However, the Australian Federal Government seems to have found a resolution to the proposed tax with the Australian mining industry. Due to this macroeconomic and political backdrop, we find that there are significant valuation dispersions across the market that are creating attractive medium to longer term investment opportunities in a number of sectors.