

Investment market performance

For the second year in a row, economies and investment markets around the world endured the continuing impact of the global financial crisis. But while few would describe the year as good, the news wasn't all bad, especially here in Australia.

As at 30 June 2009, the local economy had managed to avoid a recession (which is technically defined as two consecutive quarters of negative gross domestic product (GDP) growth). Indeed, the Australian economy weathered the global downturn better than most developed economies.

The Australian sharemarket, however, was not immune from losses – it fell by 20.3% over the course of the year. The healthcare sector posted the sole positive return – up 0.4%. Materials and energy were major drivers of the drop in Australian shares, falling 33.7% and 23% respectively. Small companies fell 28.6%.

International shares were also weaker, falling 28.4% on a currency hedged basis. Taking into account the decreased value of the Australian dollar against major currencies over 2008/09, international markets fell 16.2% on an unhedged basis. Emerging markets recorded an unhedged fall of 14.6%.

In other markets, domestic cash rates fell to 3.0% p.a. over the course of the year. Despite substantial volatility during the year, Australian fixed interest returns were relatively strong, returning 10.8% overall, while international bonds returned 10% on a currency hedged basis.

Property markets experienced significant weakness over the year. Unlisted property fell 12.4%, while listed property fell by 42.1% (largely on continuing concerns around refinancing risks, discounted equity raisings, distribution cuts, and declining property valuations).

Market outlook

Around the world, many positive steps have been taken to turn the downturn around. Governments have launched substantial fiscal stimulus packages (for example, the US recently introduced a US\$787 billion plan to help boost the economy), and reserve banks have cut interest rates in a bid to stimulate activity (at present, the UK, the US and Japan all have official interest rates close to zero).

Encouragingly, some of these measures seem to be having the desired effect. International share markets, as well as our own local share market, posted positive returns just prior to the end of the financial year. At this early stage, however, these positive results should be viewed with restraint. The road ahead is likely to remain fairly uncertain, at least for the foreseeable future.