GODFREY PEMBROKE

market update

- Business confidence remained steady in January
- US GDP fell slightly in the December quarter
- RBA leaves cash rate steady at 3.00% at March meeting

What's inside?

February market performance

Equity Markets – Price Indices	Index	At Close 28/02/13	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5120.38	4.48%	16.69%
Japan	Nikkei	11559.36	3.78%	18.88%
Hong Kong	Hang Seng	23020.27	-2.99%	6.18%
UK	FTSE 100	6360.81	1.34%	8.33%
Germany	DAX	7741.70	-0.44%	12.92%
US	Dow Jones	14054.49	1.40%	8.51%
EMU*	Euro 100	2393.07	0.21%	7.16%
World**	MSCI – Ex Aus (Gross)	1003.01	1.13%	10.30%
Property – Price Index	**Index**	**At Close 28/02/13**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	1025.39	2.56%	25.75%
Interest Rates		**At Close 28/02/13**	**At Close 31/01/13**	**At Close 29/02/12**
Aust 90 day Bank Bills		2.97%	2.95%	4.48%
Australian 10 year Bonds		3.35%	3.46%	4.08%
US 90 day T Bill		0.10%	0.06%	0.08%
US 10 year Bonds		1.89%	1.98%	1.98%
Currency* **		**At Close 28/02/13**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	1.02	-1.99%	-4.81%
British pound	A$/STG	0.67	2.49%	-0.07%
Euro	A$/euro	0.78	1.90%	-2.87%
Japanese yen	A$/yen	94.54	-1.16%	8.54%
Trade-weighted Index		77.40	-0.39%	-2.27%

* Top 100 European stocks trading on the FTSE ** Price Index – Source: www.msci.com
*** All foreign exchange rates rounded to two decimal places
Source: Iress Market Technology
Past performance is not a reliable indicator of future performance.

Global economies

Global economies continued to show signs of recovery last month, however results from the major markets were mixed.

US manufacturing continued to improve, while the Eurozone showed little in the way of an upward turnaround.

China

Over in the East, the seasonal impacts from the Lunar New Year (LNY) holiday are distorting China's economic data for the month.

January trade data saw a spike in both imports and exports. Exports growth accelerated to 25% year on year—up from 14% for December. While these figures were above market expectations, if LNY data is stripped out, growth actually decelerated to 12.4% year on year.

However, despite the decline, growth is still above the pace seen for most of last year, continuing the upward trend in external demand since December.

Economic results showed a small increase in credit demand in January, even though some reports showed a clamp down on credit issuance late last year. While this increase was a positive sign, it could also represent a bringing forward of demand ahead of the LNY.

It's interesting to note that much of the increase in credit demand has been serviced through non-bank financing. This is likely to concern authorities, particularly since some of the credit may be stemming from developed economies where quantitative easing measures are in place.

China's Consumer Price Index (CPI) data shows that inflation remains under control—although we will likely see a one-off spike in inflation next month.

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With the economy showing signs of improvement, attention may start to shift from supporting the economy to containing prices; a sentiment already hinted at by the People's Bank of China.

US Economy

US Gross Domestic Product (GDP) in the December quarter fell by a mere 0.04% quarter on quarter. While the decline was small, it was largely due to the reversal of temporary financial measures that had boosted growth in the previous quarter.

In positive news for the superpower, the pace of consumer consumption, business, and housing growth all strengthened last month—suggesting strong momentum in the economy despite the poor GDP results.

A look to the US manufacturing sector, and the latest manufacturing surveys produced positive results, the highest since April 2012. The non-manufacturing survey also produced solid results, however overall figures were slightly down.

To unemployment, and despite a small rise in the unemployment rate to 7.9% from 7.8%, the January employment data pointed to continuing steady non-farm employment growth.

Europe

The European Union (EU) continues to concern investors and markets alike as annual inflation fell to 2.1% in January, down from 2.3% in December 2012. To put this in perspective, this time last year the annual rate was 2.9%.

The countries that recorded the lowest annual rates of inflation were Greece (0.0%), Portugal (0.4%) and Latvia (0.6%), while the highest rates were seen in Romania (5.1%), Estonia (3.7%) and the Netherlands (3.2%).

Compared with December 2012, annual inflation fell in 23 Member States, remained stable in one and rose in three.

Australia

On the home front, business confidence remained steady in January, after recovering from poor levels in December.

The recovery is mainly due to external factors including a recovery in global equity markets, improved activity in China, and the recent Reserve Bank of Australia (RBA) cuts. However, confidence remains below long-term average levels.

With business confidence remaining stable, business conditions also improved slightly. Conditions were generally better across interest sensitive industries in January. On the other hand, the recent data has highlighted the gradual deterioration in business conditions in recreation & personal services and transport & utilities.

Overall, the data shows the underlying demand growth in the March quarter is a slight improvement on expectations since the December quarter, but still below trend.

On the employment front, labour costs growth softened significantly in January —in line with a sharp deterioration in employment conditions. This suggests that wage pressures are unlikely to fuel short-term prices growth.

The retail sector continued to experience poor conditions last month, with retail prices declining and further discounting seen across the sector.

Equity markets

The major markets posted mixed returns during February, with Australia taking over from Japan as the top performer. However, Japan still posted a solid return of 3.78%.

Of the majors, the underperformers for February were the Hong Kong Hang Seng and the German DAX, posting -2.99% and -0.44% respectively.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	23.38%	7.83%	2.68%	4.97%
	S&P/ASX 50 Acc.	27.79%	8.70%	4.24%	5.75%
	S&P/ASX Small Ordinaries Acc.	-2.40%	2.60%	-3.77%	1.49%

The Australian market was again a solid performer last month, with the S&P/ASX All Ordinaries gaining a very respectable 4.48%.

Over the year to 28 February, the S&P/ASX All Ordinaries Price Index has provided investors with a capital gain of 16.69% before dividends.

For the 12 months to 28 February, the S&P/ASX 300 Accumulation Index posted a very pleasing return of 23.38%, while the S&P/ASX 50 Accumulation Index performed even better, returning 27.79%.

At the sector level, all sectors except for Materials (-0.3%) posted positive returns for February. Consumer Staples outperformed the rest with a return of 10.8%, while Financials (ex Property) came in second with 8.1%.

Continuing the recent trend, over the 12 months to 28 February Health Care and Telcos continued to be the best sectors to have been invested in—with Health Care returning 53.7% and Telcos 48.3%.

The two sectors to be in negative territory over the 12 month period were still Materials and Energy, which lost 5.8% and 4.1% respectively for the year.

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Big movers this month

Going up

↑ Consumer Staples +10.8%

Going down

↓ Materials -0.3%

Sector	1 Mth	3 Mths	1 Yr
Energy	4.7%	12.5%	-4.1%
Materials	-0.3%	6.1%	-5.8%
Industrial	6.2%	18.8%	9.8%
Consumer Discretionary	6.3%	18.4%	26.5%
Consumer Staples	10.8%	16.8%	42.9%
Health Care	5.0%	11.1%	53.7%
Financials (ex Property)	8.1%	19.5%	44.0%
Info Tech	0.5%	15.9%	38.9%
Telcos	2.7%	9.7%	48.3%
Utilities	3.3%	10.4%	26.7%
Property	3.5%	11.2%	33.2%

Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	11.63%	9.14%	1.87%	2.51%
	MSCI World Index Hedged ($A)	13.59%	9.96%	1.38%	1.75%
	MSCI World Small Cap ($A)	14.18%	12.69%	5.62%	2.88%
Emerging	MSCI Emerging Mkts Free	5.84%	1.94%	-1.45%	2.25%
	MSCI AC Far East Free (ex Japan)	12.69%	5.54%	0.95%	3.89%

The MSCI World Index was up by 1.52% in February, continuing its positive run.

After a poor performance in February, Hong Kong is now the worst performer for the last 12 months, gaining only 6.18%. However, the Euro 100 and the UK are only slightly ahead, with returns of 7.16% and 8.33% respectively for the year to 28 February.

Mainland European markets performed modestly in comparison to other markets in February, with the German DAX posting a return of -0.44% and the Euro 100 posting 0.21%.

Outside of Australia, the standout performer again last month was Japan's Nikkei, which had another very positive month, returning 3.78%.

The last four months' returns have boosted the Japanese market from an underperformer to an outperformer, returning 18.88% for the year to 28 February.

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	33.18%	12.56%	-3.21%	-2.20%
Global	UBS Global Investors Index	25.77%	11.60%	1.10%	-0.87%

The Australian listed property market performed well in February gaining 2.56%.

Last month, the S&P/ASX 300 A-REIT Accumulation Index again outperformed the UBS Global Investors Index, however both indices produced good returns.

Australian listed property continues to outperform global property over the shorter term, however global property has still outperformed over the longer term.

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Australian dollar (AUD)

In February, the Australian Dollar (AUD) retreated from its recent surge against the Yen, losing 1.16% over the month to close at 94.54 Yen.

However, over the 12 months to 28 February, the AUD has gained 8.54% against the Yen.

The AUD lost further ground against the US dollar, falling 1.99% during February to close at US$1.0216.

Against the Euro, the AUD gained 1.90% during February, to close at 0.7823 Euro.

The largest gain for the AUD in February was posted against the British Pound, up 2.49% to close at 0.6738

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	8.18%	7.83%	8.22%	6.77%
	Australian 90 Day Bank Bill	3.53%	4.36%	4.59%	5.13%
Global	BarCap Global Aggregate Index	6.35%	-0.21%	2.27%	1.22%
	BarCap Global Ag,. Index Hedged	8.04%	9.24%	8.93%	8.21%

Australian bonds returned to positive territory during February, with the UBS Composite Bond All Maturities Index posting 0.59%.

Hedged global bonds, as measured by the Barclays Global Aggregate Index Hedged, also posted a gain in February, returning 0.83%, while the unhedged equivalent returned 0.92%.

On a 12 month comparison, hedged global bonds slightly underperformed Australian bonds, returning 8.04% against 8.18%.

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