



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

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In his role as Investment Analyst, Chris closely monitors fund managers in terms of performance, operational activities and compliance as well as performing internal analytics on the fund.



Economic overview

In February, stock markets in the developed world produced positive returns largely due to better than expected earnings results, which encouraged investors to believe that a sustainable rally was possible after the massive company cost cutting exercise last year. It is widely accepted now that data relating to companies alone will drive the market forward from here as opposed to the earlier rally which was based more on sectoral themes and macroeconomic views than actual company valuations.

The Reserve Bank of Australia surprised many in February by leaving interest rates on hold at 3.75% with many in the industry expecting another 0.25% rise. (The RBA was more in line with expectations in March when it made a further 0.25% increase). The RBA was justified in its decision as they were still assessing the effects of the three rate rises at the end of the last year before continuing with a policy of monetary tightening. When interest rates change there is a delay before the full effect is felt in the economy. With the RBA raising rates for three consecutive months (something that has never been done before) it may have been a case of 'too much too soon' if rates had been raised further in February. There are expectations for further rate rises throughout the rest of the year with the overnight cash rate expected to hit a more normal level of 4.5% by the middle of the year.

Meanwhile, the Australian unemployment rate fell further to 5.3% - the lowest since February

last year. This provoked much optimism about the possibility of an extended and prolonged recovery. For an economy to grow, individuals need to be earning and spending as economies rely on the free-flow of funds through the system. While unemployment is high there can be little in the way of economic growth. This is the problem the US is facing with unemployment still up at 9.7% (after peaking at 10.1%) making it much harder to sustain a recovery.

Domestic house prices also appear to be maintaining their upward trend. In January, prices rose by 1.8% compared with the previous month, according to RP Data-Rismark. With the first home-buyers additional incentive having now elapsed it appears as though supply constraints are propping up the market. With an ever increasing demand and limited supply, prices are inevitably going to be forced higher. It is a big concern that if prices continue increasing at this rapid pace then eventually the market will become overheated and we could see a situation similar to that of Japan in the late 1980's where such a rapid increase in prices saw a correction throughout the next two decades. The situation in Australia is certainly different from that of Japan, but it is something that must be monitored if it continues.

The recovery in developing economies appears to be slowing with negative returns in emerging market equities over the past two months. The progress of developing economies is very important to the Australian economy due to the high percentage of exports going to these regions. As these economies slow and production is reduced, demand for raw materials declines with the end result being that export sales are reduced. Australia's export trade has already been hurt by the appreciation in the Australian dollar which has made Australian goods more expensive for foreign buyers so any slowdown in the developing world will harm Australia's export trade further. Fortunately, there appears to be enough strength domestically for Australia to be able to withstand this risk and with China still posting double-digit economic growth figures, it may prove to be an exaggerated concern.

Investment markets snapshot

Investment type	Performance
Australian Equities	2.16%
International Equities (Unhedged)	0.58%
Australian Listed Property Trusts	1.46%
Australian Government Bonds	0.43%
International Government Bonds	0.81%

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