



**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

Share markets dropped in August with the S&P/ASX 200 Accumulation Index falling 1.2%, while the US market fared worse with the S&P 500 falling 4.5% in local currency terms. There were two competing factors in equity markets during the month - positive company fundamentals and negative economic news.

On the whole, company fundamentals look good with the majority of companies exceeding analysts' earnings estimates and appearing to have very healthy balance sheets with low levels of debt and high levels of cash. Overlaying this, though, was the poor economic picture, particularly in the US, which overwhelmed the good news and drove the rest of the world into negative trading territory.

Interest rates in Australia were left on hold for a fourth consecutive month. In the media release which accompanied the rate announcement the RBA Governor, Glenn Stevens, cited a moderating growth rate in China as a key influence on the decision. Action has been taken by the Chinese government to curb the rate of growth in the world's second largest economy. This is likely to reduce the demand of raw materials and trigger a mild slowdown in the Australian economy, which is highly reliant on exports to China. The RBA of course took other considerations into account when making their interest rate decision but the focus on China is proof of the significance of that economy to the Australian economy.

The GDP figures released in early September have put pressure on the RBA to raise interest rates. They showed

## Monthly economic e-news



that the Australian economy grew at a rate of 1.2% for the June quarter and 3.3% for the year ending June 2010. This was good news for investment professionals who are looking for a sustainable level of growth in order to push share markets higher in the medium term, but more worrying for the RBA which is concerned about the economy overheating. The last time we saw quarterly GDP at this level was June 2007, shortly before the beginning of the global financial crisis. Global economic conditions are different this time around and are unlikely to result in the same outcome, but this is certainly an area that will require close monitoring.

Unemployment rose by 0.2% for the month to a rate of 5.3%. This did not worry market participants too much as this rate is still very low in comparison with many other developed nations and is often skewed or distorted by the timing of people entering or leaving the workforce. A period of sustained increases in the unemployment rate would be a cause for concern, but at this level it does not appear to be an issue.

In the US, the problems that we have been talking about for some time refuse to go away. A key indicator about the state of the US economy is the 10-year bond rate which is currently trading at around 2.6% and pushing all time lows. This means that over ten years an investor would expect to make a return of 2.6% per year for an asset that is considered to be risk-free. When you take out the current inflation rate of 1.2%, the return becomes even less. The significance of this is the implied lack of growth that we are likely to see in the US over the next ten years. The long-term average rate for the 10-year bond is around 6% as interest rates have been set higher to control the level of inflation, but with rates at the current level it implies little or no growth over a substantial period of time.

Key US officials are promising to take action to remedy this weak economic position with the Chairman of the Federal Reserve (the US central bank) Ben Bernanke indicating that he was ready to step in if the economy faltered. There is a high possibility of the need for such action from the Federal Reserve, but what form this might take is uncertain.

### Investment markets snapshot

Investment type	Performance
Australian Equities	-1.15%
International Equities (Unhedged)	-2.12%
Australian Listed Property Trusts	3.74%
Australian Government Bonds	2.15%
International Government Bonds	2.35%

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