



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

The rally in world equity markets came to an abrupt end in October with the first negative monthly return since February this year. Many are now seeing equity prices as being at the top end of the valuation scale, having run ahead of the growth prospects for GDP and company earnings.

One major talking point during October was the Reserve Bank's decision to increase interest rates to 3.25% from 3.0%. This put Australia at the centre of world attention with the announcement being the most read article in global financial news for the day as Australia became the first developed nation to raise rates since moving to emergency levels earlier this year. This decision had far-reaching implications as an interest rate rise indicates that the economy is showing significant growth potential. It also sparked speculation of further rate rises with a further rate rise in November looking like an almost certainty. The only question is how much? In justification of the rate rise, Governor Glenn Stevens made the observation that the global economy is growing again and 2010 growth forecasts are being revised upwards. In China particularly, growth has been very strong with industrial production increasing by 13.9% year-on-year, which has driven demand for Australian commodities and provided a further boost to the local economy. In addition to this, unemployment unexpectedly fell for the month

Monthly economic e-news



from 5.8% in September to 5.7%. This was received very favourably as a fall in unemployment is an indication of economic resilience.

True to recent form, the US has not been able to compete with the positive news received in Australia. During the month, unemployment in the US continued to rise and is now at 9.8%. Meanwhile, indicators of consumer spending have been weak. Total vehicle sales were at 9.2 million, but this was down from 14.1 million in the previous month. Much of this was driven by the withdrawal of the "cash-for-clunkers" policy which left September car sales artificially high. As I have said before, the stimulus measures introduced by governments cannot support the economy on an ongoing basis and this data emphasises this. Furthermore, new home sales fell by 3.6% month-on-month, sparking a big sell-off in US equities towards the end of the month as many investors remain concerned about the true state of the US economy.

There was however one piece of positive news from the US in October and that was the third quarter GDP result which came out at an annualised figure of 3.5%, above the consensus of 3.2%. This sparked a short-term rally in the market as investors took the news as a sign that the economy is back to a growth phase and the recession is well and truly behind us. However, doubt still surrounds the stability of banks and property prices. The government has taken extreme measures to keep banks afloat but there are reports that some leading lenders are still struggling to remain financially viable. This is having a flow on effect into the property market as the availability of credit is drying up, reducing demand for property and forcing prices down. This news led an end-of-month sell off, which saw the US market give up 2.5% on the last trading day of the month.

Investment markets snapshot

| Investment type | Performance |
|-----------------------------------|-------------|
| Australian Equities | -2.08% |
| International Equities (Unhedged) | -4.14% |
| Australian Listed Property Trusts | -9.04% |
| Australian Government Bonds | -0.26% |
| International Government Bonds | 0.14% |

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