

ASSET CLASS* PERFORMANCE: COMMODITIES BOUNCE BACK

David Bassanese, Chief Economist



Return Performance

Performance Rank

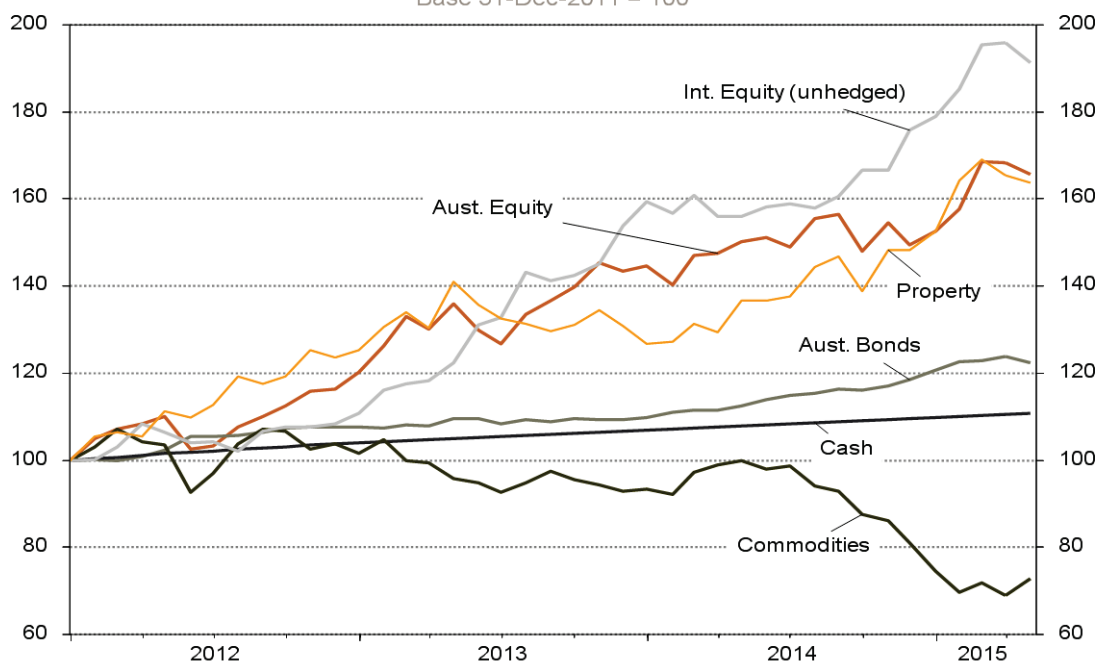
	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.2%	0.6%	1.3%	2.7%	2	4	5	5
Aust. Bonds	-1.1%	-0.1%	4.6%	8.9%	4	6	4	4
Aust. Property	-1.1%	0.4%	13.0%	26.0%	3	5	2	1
Aust. Equities	-1.7%	5.0%	7.1%	10.2%	5	1	3	3
Int. Equities *	-2.3%	4.1%	16.3%	25.7%	6	3	1	2
Commodities **	5.8%	4.5%	-15.2%	-27.0%	1	2	6	6

*Hedged **Unhedged

- Commodity prices enjoyed a decent bounce in April as (somewhat perversely) a renewed bout of weak US economic data raised hopes that the Federal Reserve would delay rate cuts, which in turn weakened the \$US. Softer Chinese economic growth – and associated hopes of more Chinese policy stimulus - also boosted commodities. A local increase in bond yields – due to the RBA’s refusal to cut interest rate - hurt fixed income returns.
- Local equities slipped back, led by the interest rate-sensitive financial sector.
- Global equities posted a small return in local currency terms, but fell in \$A terms due to renewed \$A strength.
- Over the past year, the best performing asset class remained listed property, while the worst performing remained commodities.

Asset Class Price Trends

Base 31-Dec-2011 = 100



Source: Thomson Reuters Datastream, BetaShares

MARKET OUTLOOK

- We do not expect the recent weakness in US economic data to last, which in turn implies the **Federal Reserve likely remains on track to raise interest rates at either the June or September FOMC policy meetings**. Against the backdrop of weaker Chinese demand and rising supply, we also do not anticipate a major price bounce back across commodity markets anytime soon – though it's **possible we may have already seen the bottom in prices in some commodity markets** such as iron ore and oil.
- As regards Australia, the RBA's decision this week to cut official interest rates to an historic low of 2% p.a. is consistent with our view that **continued sub-trend growth and low inflation will eventually force rates to 1.5% p.a. by year-end**. That said, recent firmer readings for retail sales and employment bear watching and provide some hopes of recovery. Against this, however, the upcoming Federal Budget may well dent business and consumer confidence again, the \$A remains relatively high, and the outlook for both public demand and business investment is subdued.
- Meanwhile, outright price-to-earnings valuations across equity markets are getting stretched, while earnings expectations are under downward pressure. Accordingly, **there is a growing risk of at least a short-term equity market correction as the Fed approaches its first lift in interest rates**.
- With inflation low, ample spare capacity, and central banks still broadly supportive of economic growth, however, **the medium-term outlook for global risk assets compared to defensive assets remains favourable**. Within the risk asset space, we still favour international equities over domestic equities and financials over resource stocks within the local market. The \$A, meanwhile, is likely to remain under pressure.

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Asset Class	Investment Exposure	BetaShares Fund	ASX Ticker	MER(%)
Australian Cash	Australian Cash	Australian High Interest Cash ETF	AAA	0.18%
Foreign Currencies	U.S. Dollars	U.S. Dollar ETF	USD	0.45%
	Euro	Euro ETF	EEU	0.45%
	British Pounds	British Pound ETF	POU	0.45%
Australian Equities	Largest 200 Australian companies by fundamental weight	FTSE RAFI Australia 200 ETF	QOZ	0.40%
	Financials Sector excluding A-REITS	S&P/ASX 200 Financials Sector ETF	QFN	0.39%
	Resources Sector	S&P/ASX 200 Resources Sector ETF	QRE	0.39%
	S&P/ASX 20 + Equity Income strategy	Equity Yield Maximiser Fund (managed fund)	YMAX	0.79%
	S&P/ASX 50 + Dividend Income strategy	Australian Dividend Harvester Fund (managed fund)	HVST	0.90%
	Geared exposure to diversified portfolio of Australian Equities	Geared Australian Equity Fund (hedge fund)	GEAR	0.80%
	Short Australian Equities	Australian Equities Bear Hedge Fund	BEAR	1.38%
	Short Australian Equities	Australian Equities Strong Bear Hedge Fund	BBOZ	1.38%
International Equities	US S&P 500 Index	S&P 500 Yield Maximiser	UMAX	0.79%
Commodities	Gold Bullion (US\$)	Gold Bullion ETF - Currency Hedged	QAU	0.59%
	S&P GSCI Crude Oil Index	Crude Oil Index ETF – Currency Hedged (synthetic)	000	0.69%
	S&P GSCI Index (Light Energy)	Commodities Basket ETF – Currency Hedged (synthetic)	QCB	0.69%
	S&P Agriculture Enhanced Select Index	Agriculture ETF – Currency Hedged (synthetic)	QAG	0.69%

*ASSET BENCHMARKS

Cash: UBS Bank Bill Index

Australia Bonds: Bloomberg Composite Bond Index

Australian Property: S&P/ASX 200 A-REITs

Australian Equities: S&P/ASX 200 Index

International Equities: MSCI World (developed market) Equity Index, unhedged \$A terms

Commodities: S&P GSCI Light Energy Index, \$US terms