

MARKET INDICATORS

Market	Indicator	Current	Last Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	3.00	3.00	0.00	7.00	-4.00
	3 Month Interbank Borrowing Rt.	3.42	3.40	0.02	7.80	-4.39
	10 Year Bond	5.36	5.41	-0.05	5.40	-0.04
Australian Shares	All Ords	4739.30	4484.10	5.69	4631.30	2.33
	S&P/ASX 200	4743.60	4479.10	5.91	4600.50	3.11
Regional Shares	Dow Jones Industrials (US)	9712.28	9496.28	2.27	10850.66	-10.49
	S&P 500 (US)	1057.08	1020.62	3.57	1166.36	-9.37
	FTSE 100 (UK)	5133.90	4908.90	4.58	4902.45	4.72
	TOPIX (Japan)	909.84	965.73	-5.79	1087.41	-16.33
	Hang Seng (Hong Kong)	20955.25	19724.19	6.24	18016.21	16.31
Property	ASX 300 A-REITS Index	948.15	863.79	9.77	1342.40	-29.37
	US\$ Gold Price	1002.00	948.25	5.67	877.60	14.18
	US\$ Oil Price – West Texas Crude	65.70	68.72	-4.39	93.84	-29.99
	US\$ CRB Spot Commodity Index	372.37	381.52	-2.40	412.99	-9.84
Exchange Rates	AUD / USD	0.8801	0.8393	4.86	0.7996	10.07
	AUD / EUR	0.6015	0.5877	2.35	0.5565	8.09
	AUD / GBP	0.5487	0.5168	6.17	0.4435	23.72
	AUD / JPY	78.82	77.88	1.21	83.41	-5.50
Volatility	VIX Index	25.61	26.01	-1.54	39.39	-34.98

Key Points:

- Australian government 10 year bond yields finished the month marginally lower.
- Equity markets continued to rally in September with almost all regional markets participating. After some volatility early in the month markets rose as investors were encouraged by better than expected economic data and some large corporate merger and acquisition activity.
- Gold prices moved higher in September, breaking above USD1000/oz, prompted mainly by weakness in the USD.
- The Australian dollar continued to appreciate against the USD and most major currencies in September with some commentators questioning the rapid ascent of the dollar while others contemplated whether the AUD would reach parity with the USD.
- Volatility abated marginally in September as measured by the VIX Index.

CASH, FIXED INTEREST & CREDIT

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD
Australian Cash	UBS Bank Bill Index	0.28	4.31	6.16	6.01	3.80	1.54
Australian Bonds	UBS Composite All Maturities	0.72	7.07	6.29	5.88	4.61	1.05
International Bonds	Barclays Global Aggregate \$A	1.05	11.97	7.96	7.25	7.50	1.05

Summary of Statistics:

- **Australian Cash** returned 0.28% in September and 4.31% for the year as measured by the UBS Bank Bill Index.
- **Australian Bonds** rose 0.72% in September, as measured by the UBS Composite All Maturities Index. Australian 10 Year government bonds are now yielding 5.39% in comparison to 5.41% last month and 5.36% a year ago.
- **International bonds** as measured by the Barclays Global Aggregate (Hedged \$A) Index rose in September by 1.05%. 10 Year bond yields fell over the month in the US from 3.45% to 3.30%; rose in the UK from 3.63% to 3.75% and remained fairly flat in Japan.
- **Credit spreads** continued to contract in September as the markets continued to improve.

Commentary:

US government bond yields continued to decline in September after rising mid-month due to inflation concerns and improving economic data. However, comments later in the month by Fed Chairman, Ben Bernanke, to reduce expectations of rate hikes and to temper inflation expectations helped to sooth the market.

Domestically, September witnessed the first issue of inflation linked government bonds since 2003. The September 2025 inflation linked bond issue was oversubscribed due to huge demand from offshore investors resulting in \$5.5bn in bids and \$4bn issued.

Credit spreads continued to tighten in September, both domestically and globally. Spreads have contracted significantly since the peak of the crisis with investment grade credit spreads having tightened 301bps to 192bps since the start of the year to September 18. Given these substantial moves investors might be wondering if there is any value remaining in credit. According to Mark Kiesel from PIMCO now is the time to be more selective and employ a more cautious approach to credit.

AUSTRALIAN SHARES

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. High	Ch. Fr. Low
Australian Shares	S&P/ASX 300	6.26	8.50	1.63	9.91	24.62	29.28	-0.21	54.84
Australian Shares - Small Caps	ASX Small Ordinaries	5.05	6.27	-1.64	7.62	32.20	42.91	-2.58	80.35
Australian Shares - Style	SPGI BMI Australia Growth	5.53	8.65	3.70	12.17	28.77	26.10	-0.93	53.50
	SPGI BMI Australia Value	7.50	10.01	-0.21	8.76	23.33	35.42	-0.24	71.81
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	2.80	7.59	7.28	16.07	35.14	19.50	-4.89	72.84
	S&P/ASX 300 Industrials	5.95	-6.19	-7.12	2.79	9.34	44.27	-9.60	82.08
	S&P/ASX 300 Consumer Discretionary	10.55	7.77	-8.17	-1.42	28.61	42.42	0.00	74.38
	S&P/ASX 300 Consumer Staples	5.23	10.88	7.06	12.88	24.86	26.81	-0.79	34.70
	S&P/ASX 300 Financials	9.91	15.12	-2.06	8.06	23.59	39.11	-0.36	87.42
	S&P/ASX 300 IT	8.84	31.97	10.18	15.82	58.30	35.83	-1.39	85.83
	S&P/ASX 300 Telecommunication Svs.	0.27	-13.09	2.96	0.21	-6.86	6.93	-17.48	15.12
	S&P/ASX 300 Financials ex-Property	9.88	24.46	1.94	11.10	31.06	38.06	-0.55	87.54
	S&P/ASX 300 Property Trusts	10.04	-22.99	-18.65	-4.62	-10.24	44.53	-27.26	85.28

Summary of Statistics:

- **Australian shares** as measured by the S&P/ASX 300 index capped off an impressive quarter, continuing to rally in September, recording a monthly gain of 6.26%.
- The **small cap sector** underperformed large caps with a return of 5.05%.
- On a **sector** basis investors chose to embrace those sectors most leveraged to an economic recovery with Consumer Discretionary (10.55%), Property Trusts (10.04%) and Financials (9.91%) the best performing sectors. The only negative performing sector was Telecoms (-0.27%) with Materials also gaining only modestly (2.80%)
- The Australian share market continued to outperform many regional markets as the domestic economy demonstrated continued strength

Commentary:

September marked the seventh consecutive rise for the Australian share market, capping its biggest quarterly rise in 22 years. In fact, the market has risen 51% since its March low with many commentators suggesting the market is set for a minor pullback or at least a breather after such a strong period of performance. The Australian market rose in concert with global markets as largely better than expected economic data out of the US and corporate merger and acquisition activity encouraged investors. However, the Australian market outperformed most of its developed peers, reflecting the better economic position of the Australian economy.

During the month a few of the company-specific news stories impacting the local market included ANZ's announcement that they would be buying ING's 51% stake in their Australia and New Zealand wealth management and life insurance joint venture for EUR1.1bn. The deal will help ANZ to expand its wealth management capabilities, where it has traditionally been underweight compared to many of its peers. Also during the month Nufarm announced that it had received a non-binding takeover proposal by Chinese state-owned Sinochem at \$13.00 a share, valuing the company at \$2.84bn. The deal is subject to Chinese and Australian government approval, including Australia's Foreign Investment Review Board. Late in the month Macquarie Group announced its third North American acquisition since May, purchasing US investment bank Fox-Pitt Kelton Cochrane Caronia Waller LLC for USD\$130m. The acquisition is part of Macquarie's shift in focus from buying an pooling assets to providing investment services.

INTERNATIONAL SHARES

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. High	Ch. Fr. Low
International Shares	MSCI World Ex-Au A\$	-0.91	-12.82	-9.39	-0.27	-7.85	7.99	-13.36	18.32
	MSCI World A\$	-0.64	-12.08	-9.03	0.04	-6.90	8.66	-12.53	19.35
International Shares - Small Caps	MSCI World Small Companies Ex-Au A\$	1.06	-5.83	-8.55	1.13	1.48	17.87	-5.83	32.51
International Shares - Regional	MSCI US A\$	-0.77	-16.65	-10.31	-2.64	-13.39	2.89	-17.62	13.85
	MSCI Europe A\$	-0.03	-8.55	-8.33	2.80	-0.32	17.79	-10.09	30.66
	MSCI AC Asia Ex-Jap \$A	3.98	13.59	2.05	10.66	17.96	18.03	-2.53	30.66
	MSCI Japan A\$	-6.08	-11.01	-12.93	-1.62	-10.46	-0.51	-17.62	7.06
	MSCI China A\$	-0.01	18.41	11.71	18.13	19.94	9.62	-10.36	53.60
	MSCI India A\$	6.04	17.96	4.26	19.68	27.86	39.39	0.00	72.90
	MSCI Emerging Markets A\$	4.21	6.75	2.39	13.12	22.30	20.14	-2.21	42.07
International Shares - Hedged	MSCI World ex-Au \$A (Hedged)	2.97	-4.40	-5.88	2.55	18.92	27.73	-4.48	54.51

Summary of Statistics:

- **International Shares (ex-Australia)** fell -0.91% in September on an unhedged basis but rose 2.97% on a fully hedged basis.
- **Small caps** outperformed the broader market, returning 1.06%.
- On a regional basis, India and Emerging Markets were the best performing markets in \$A.

Commentary:

Most regional markets recorded strong gains in September with European, US and Hong Kong markets posting their best quarterly gains in decades. These gains were eroded on an unhedged basis as a strengthening Australian dollar offset the gains. The strength in global markets was a reflection of improving and better than expected economic data, particularly improving manufacturing activity across the globe with the US ISM manufacturing gauge and global manufacturing index both rising strongly. Investor confidence was further strengthened by assurances by G20 leaders early in the month to keep stimulus measures in place to ensure mistakes of the 1930's depression were not repeated. Later comments by Fed chairman, Ben Bernanke that he thought, from a technical perspective, the recession was over further strengthened investor confidence. Late in the month the IMF revised its global estimate of actual and potential write downs by financial institutions from USD\$4 trillion to USD\$3.4 trillion.

Helping to further buoy market confidence during the month was a number of large merger and acquisition announcements. The largest of these was the announcement by Kraft that it was bidding for British confectionary giant Cadbury in a deal worth USD\$16.7bn. Other large deals included Xerox's USD\$6.4bn acquisition of Affiliated Computer Services and Dell's USD\$3.9bn takeover of Perot Systems.

PROPERTY & INFRASTRUCTURE

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. High	Ch. Fr. Low
Australian Listed Property	S&P/ASX 300 Property Trusts	10.04	-22.99	-18.65	-4.62	-10.24	44.53	-27.26	85.28
Global Listed Property	FTSE EPRA/NAREIT GLOBAL REITS (Hedged \$A)	4.99	-23.37	-22.64		0.91	41.11	-23.36	76.49
Global Listed Infrastructure	S&P Global Infrastructure Hedged \$A	3.46	-5.85	-1.50	9.56	19.23	27.79	-6.68	45.34

Summary of Statistics:

- In September Australian Listed Property once gain outperformed the global property markets, gaining 10.04% against a rise of 4.99% in Global Listed Property
- Global Listed Infrastructure as represented by the S&P Global Infrastructure Hedged \$A returned a positive 3.46%

Commentary:

Global and domestic property continued to rebound as investors continued to invest in risk assets and those sectors leveraged to an economic recovery. Recapitalisation continued to feature in the domestic sector as shareholders of the Goodman Group approved all capital management resolutions that will see the company raise \$1.8bn through an issue of options and hybrid securities designed to reduce debt and refinance all its commitments. Also during the month the Dexs group issued USD\$300 of 5 year fixed rate notes.

Consolidation was also a feature during the month as Lend Lease bid \$170m for the remaining 57% of aged-care provider and retirement home company Primelife that it didn't already own. The purchase will be funded from existing cash reserves or debt facilities or both.

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