



Market Commentary

By Advance Investment Solutions

Felix Stephen, Manager Strategy & Research at Advance, shares his thoughts on the month's events and the impact on domestic and global sharemarkets.

November 2011

Ongoing concerns over the sovereign debt crisis in Europe and fears of a global recession led leaders in the US, Europe and UK to initiate further measures to spur on the economy.

Taking action

The US Federal Reserve (Fed) enacted more monetary policy after its scheduled September Federal Open Market Committee (FOMC). "Operation twist" will see the US central bank selling shorter dated bonds in order to buy longer dated bonds in an attempt to flatten the yield curve.

In the meantime, the European Central Bank (ECB) announced the resumption of covered bond purchases to begin early November. Also, additional liquidity extending to 12 and 13 months will be provided to the region's financial services companies.

In the UK, the Bank of England announced the resumption of quantitative easing (QE) with some £75bn of gilts to be purchased over a four month period.

What impact has this activity had on the markets?

The poor performance in August continued through to what was a volatile September quarter. Global equities declined more than 15% while European equities underperformed the broader regions, falling nearly 25%.

Undoubtedly the biggest event hanging on market sentiment, driving much of the negative sentiment seen in markets was based on the concerns of the magnitude and contagion effect a Greek default may cause.

Compounding negative sentiment, Italy and several US and French banks had their ratings downgraded over the month. Investor confidence was boosted by France and

Germany declaring their support for Greece to remain in the euro zone and the ECB announced joint action with five major central banks to increase liquidity. However, announcement for the US Fed's "operation twist" failed to excite the market and provide any catalyst for stabilisation.

These concerns kept volatility elevated and were a significant factor in driving investors out of risk assets and global equities.

While the Australian market was broadly poor, the resources and smaller companies suffered the most from the extended investor risk aversion.

Commodity prices fell as declining growth expectations erased any upside scenario from investors' minds hitting our resource market.

What's the outlook for investment markets?

We expect the market to favour growth assets over defensive assets over the next two or three quarters. We then expect a forward looking market to become more defensive as we get closer to the end of 2012 where political uncertainties will remain elevated.

Disclaimer:

This information has been compiled by Securitor Financial Group Ltd ABN 48 009 189 495 AFSL 240687 (Securitor) and is reproduced here by Finovia Pty Ltd ABN 31 007 353 068 AFSL 230662. Material provided in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter. The information and any advice in this publication do not take into account any particular person's objectives, financial situation or needs. You should seek professional advice before making any decisions based on information provided in this document.