

# MLC Fund Performance Update



*Below is a transcript of a video recorded on 5<sup>th</sup> December 2011, by MLC Senior Investment Specialist, John Owen.*

## **What were the principal drivers of markets in November?**

Markets were generally weaker in November and unfortunately, the drivers of markets closely resembled those of recent months. The unfolding European debt crisis and the consequences of the crisis for global economic growth are unfortunately very familiar market drivers. Sovereign debt default shifted from Greece to Italy, who also has substantial indebtedness. Elsewhere, markets were also cautious on the outlook for China's growth.

However, on the last trading day of the month, markets rallied by substantial margins in response to news that central banks in the US, Canada, England, Japan, Switzerland and the European Central Bank had taken co-ordinated action to provide liquidity support to the global financial system. This is intended to ease potential strains in financial markets that could impact the supply of credit to households and businesses. Ultimately, these measures are designed to help foster economic activity.

## **How did global sharemarkets perform?**

The co-ordinated central bank action that was announced on 30 November did help some of the European markets avoid what could have been significant losses for the month. Germany's market fell by 0.9% in November, which is a great result considering that it had fallen by 12.6% from its 31 October close at one point in the month. The UK's FT100 index was down by just 0.7% while the French and Italian exchanges returned -2.7% and -4.7% respectively. The positive market reaction to the central banks initiatives wasn't just confined to Europe. In the US, the S&P500 Index increased by 4.3% on the last trading day of the month and, thereby cutting the negative return for the month to just 0.5%.

Markets in the Asia Pacific region had already closed for the month when the central bank action became known. Consequently, share market returns tended to be worse than those in Europe and America. Hong Kong's Hang Seng Index was one of the weaker performers with a return of -9.4%. Japan's Nikkei Index returned -6.2% while China's Shanghai exchange and Singapore's Straits Times Index were both down by around 5.5%.

## **How did the Australian sharemarket perform?**

Australia's sharemarket also missed the benefit of the 30th November market rally in Europe and North America although its return in November, while negative, was by no means as severe as other Asian market returns. The S&P/ASX300 Accumulation Index returned -3.4% in November. Resources lost the most ground as concerns about a global economic slowdown caused commodity prices to weaken. Sectors that performed well in the risk averse environment included listed property which increased by 2.6% and Healthcare up by 2.2%.

## **How has the Aussie dollar performed?**

The performance of the Australian dollar in November was mixed against the world's major currencies though the variations were modest in magnitude compared to recent months. It was flat against Sterling and stronger by 0.6% versus the Euro. Our currency was down by 2.4% against the US dollar and 3% versus the Japanese Yen.

## What's been happening in bond markets?

Australia's sovereign bond market was the best performer globally during November. Domestic bond yields rallied strongly in response to the deteriorating global (or mainly European) environment and the subsequent decision by the Reserve Bank to cut official interest rates. Two year bond yields rallied strongly from 4% to 3.25% and 10 year bonds rallied from 4.5% to 3.9%. In line with global credit markets, spreads widened and underperformed the treasury market.

In global bond markets, most of the action was in Europe where the ongoing debt crisis saw Italian 10 yr bond yields increase from 6% to as high as 7.25% before finishing the month at 6.9%. Intervention by the European Central Bank stabilised yields and prevented a further deterioration in the market. Of greater significance was the failure of a German bond auction that saw 10 year yields rise 30bps to 2.33% at one point before finishing the month at 2.28%. French bond yields rose by a similar amount. The significance of this price action was that Germany is not immune from the crisis and that failure to resolve the crisis would eventually consume the 'core' European bond markets, including Germany's.

European corporate spreads widened sharply as risk aversion took hold and underperformed the US corporate market where spreads widened by a more modest margin. US High Yield bond spreads widened some 70 bps and had a poor month. As a result, credit underperformed the treasury markets.

## What does this mean for investors in MLC's Horizon Portfolios?

Despite the recovery in many share markets late in the month, November was still a negative month from a return perspective.

Based on preliminary, unaudited data, the Super Fundamentals version of MLC's Horizon 4 Balanced Portfolio returned -1.8% after fees and tax in November. The MLC Super Fundamentals Horizon 5 Growth Portfolio returned -2.5% for the month.

One year returns have now slipped into negative territory. The Balanced Fund returned -0.1% for the year while the Growth Fund's return was -1.9%.

This is our last webcast for the calendar year but we look forward to your company again in 2012.

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### Important Information:

Past performance is not a predictor of future performance. The value of an investment may rise or fall with the changes in the market.

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