

Economic News

Economic indicators released in March were mixed. Real GDP expanded by 0.5% in the March quarter, following an upwardly revised 1.1% increase in the December quarter of 2009. Australia's unemployment rate was 5.4% in April, in line with the unemployment rate for March, which was revised upward from 5.3 to 5.4%. A significant increase in new full-time positions more than offset the part-time positions made redundant during the month.

The monthly TD Securities-Melbourne Institute inflation gauge rose 0.5% in May, attributed to the newly introduced 25% government tobacco tariff. In the 12 months to May, the gauge rose by 3.7%, the fastest pace since October 2008.

Business confidence levels fell for the second consecutive month in April, according to the National Australia Bank's monthly business survey, with the retail, building and transport sectors most affected by the procession of rate hikes since the beginning of 2010. The total number of job advertisements in Australian newspapers and on the internet fell 1.2% in seasonally adjusted terms in April.

On June 1, the RBA Board decided to leave the cash rate unchanged at 4.5%. The RBA statement observed that since the Board last met, concerns about sovereign creditworthiness in several European countries have been a focus of financial markets. The effects of the rescue efforts of European policy makers will need to

remain under review. In Australia, consistent with the above trend growth outlook and as a result of actions at previous meetings, the Board noted that interest rates to borrowers are around their average levels of the past decade, which is a significant adjustment from the very expansionary settings reached a year ago.

Economic indicators in the US were disappointing. The US Labor Department reported that the economy added 431,000 jobs in May – significantly less than the 513,000 expected by the market. The unemployment rate dropped to 9.7% in May from 9.9% in April, although this was mostly attributed to a rise in temporary positions for the US Census.

The Commerce Department reported that the US economy grew at an annual rate of 3% in the first quarter of 2010. This was a revision to an initial estimate of 3.2%, suggesting that the economy is rebounding more slowly than earlier believed. Retail sales rose 0.5% in April, well short of market estimates of a 1.7% increase.

The US Consumer Price Index unexpectedly fell in April, down 0.1%, the first decrease since March 2009. Excluding food and fuel, the core inflation rate was unchanged, capping the smallest 12-month gain in four decades.

The Australian Dollar (AUD) fell against most of the major currencies during May and finished the month at US\$0.849. The AUD depreciated 1.7% against the Euro, 3.11% against the Pound and 11.2% against the Japanese yen.

Market moves — as at 31 May 2010

Returns (%) p.a.	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
Australian Equities							
S&P/ASX 300 Accumulation Index	-7.54	-3.55	-4.24	20.72	-7.26	6.04	8.07
S&P/ASX Small Ordinaries Accumulation Index	-8.18	-1.88	-5.72	19.01	-13.08	4.69	7.45
Global Equities							
MSCI World Acc Index with Gross Div (A\$)	0.46	2.75	4.04	8.98	-10.53	-0.55	-3.64
S&P 500 Composite Accumulation Index (A\$)	2.12	5.81	9.57	15.47	-9.10	-1.71	-4.57
FTSE100 Accumulation Index (A\$)	-1.09	-0.18	-1.69	4.77	-13.84	-1.94	-2.74
MSCI Emerging Markets Free W/Gross Div (A\$)	1.27	6.59	7.37	17.12	-0.90	11.71	6.61
REITS (Listed Property Securities)							
S&P/ASX 300 A-REIT Accumulation Index	-4.27	-0.56	1.17	27.53	-25.28	-7.28	3.16
UBS Global Real Estate Investors Index (A\$)	-5.69	4.94	9.77	41.54	-14.99	-0.13	9.66
Fixed Interest							
UBS Warburg Composite Bond Index	1.65	1.61	3.09	5.75	7.02	5.90	6.34
UBS Warburg Bank Bill Index	0.38	1.05	2.08	3.75	5.60	5.79	5.56
BarCap Global Aggregate Index Hedged \$A	1.18	2.64	4.18	11.39	9.23	7.16	8.25

Data source: IRESS, Perpetual Funds Management, Morningstar. Returns greater than one year are annualised.

S&P/ASX 200 Stock Performance for the Month of May 2010

Best Performers		Worst Performers	
Healthscope Ltd	(+25.63%)	Ausenco	(-55.71%)
Eldorado Gold Corp	(+22.17%)	Virgin Blue Holdings Ltd	(-44.54%)
Sigma Pharmaceuticals	(+18.89%)	Linc Energy	(-26.21%)
Australian Agricultural Co	(+14.67%)	Sonic Healthcare Ltd	(-25.94%)
St Barbara Ltd	(+10.91%)	Kagara Zinc Ltd	(-23.84%)

Data source: IRESS: S&P/ASX200 top performers

Australian Equities

The Australian share market lost ground again in May, with the S&P/ASX 300 Accumulation Index falling 7.54%. The S&P/ASX Small Ordinaries Accumulation Index underperformed the large cap market, falling 8.18%. Small caps have now underperformed the large cap market over the 12 months to May 2010, registering 19.01% compared to 20.72% for the large cap sector.

Global Equities

Global equities posted mixed results in May. The MSCI World Accumulation Index rose 0.46% in AUD terms. The S&P 500 Composite Accumulation Index (A\$) rose slightly higher, gaining 2.12%, however the FTSE100 Accumulation Index (A\$) fell, losing 1.09%.

Emerging markets were stronger in May, with the MSCI Emerging Markets Free W/Gross Div (A\$) gaining 1.27%. The Index has risen 17.12% over the past 12 months, underperforming the local equity market.

Regional markets experienced another negative month in May. In Japan, the Nikkei ended the month 11.65% weaker, while in Hong Kong the Hang Seng fell 6.36%. The FTSE lost 6.57%, and in Europe both the German DAX and French CAC40 indices fell by 2.79% and 8.11% respectively. Concerns about sovereign debt in Europe contributed to rising uncertainty in global markets.

REITS (Listed Property Securities)

The S&P/ASX 300 A-REIT Accumulation Index was weaker for the month, losing 4.27% although still outperforming the broader equity market. Overall, the S&P/ASX 300 A-REIT Accumulation Index has risen 27.53% in the 12 months to May, outperforming the broader market.

The UBS Global Real Estate Investors Index also fell in May by 5.69% in AUD terms. Over the 12 months to May 2010, the UBS Global Real Estate Investors Index was up 41.54% in AUD terms.

Fixed Interest

The Australian bond market was stronger in May, with the contrast between domestic strength and offshore weakness emphasising the Australian bond market's relative strength. The UBS Warburg Composite Bond Index rose 1.65% in May while the UBS Warburg Bank Bill Index rose 0.38%. Over the 12 months to May 2010, the bond and cash markets returned 5.75% and 3.75% respectively.

The BarCap Global Aggregate Index Hedged \$A rose 1.18% in May and has returned 11.39% for the year to the end of May 2010.

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