

## in brief

A combination of the **widening of the Eurozone debt crisis** and **Chinese policy tightening** increased investor risk aversion through the month.

The **Reserve Bank of Australia (RBA)** increased rates by **0.25% to 4.25%** in **April**, and raised them a by a **further 0.25%** to **4.5%** at its meeting in early May.

Europe's sovereign debt crisis **stifled** the **global sharemarket** rally in April. But in the US, the S&P500 climbed 1.5% in April following **strong Q1 earnings results** and **encouraging economic data**.

## Australian Cash

As was widely expected by the market, the Reserve Bank of Australia (RBA) increased rates by 0.25% to 4.25% in April.

At its most recent meeting on 4 May, the RBA raised the cash rate a further 0.25% to 4.5%, citing the better economic environment domestically, strong growth in Asia and a rising terms of trade. They also noted that inflation appears likely to be in the upper half of the 2-3% target zone over the coming year.

The RBA indicated that interest rates are now "around average levels".

## Australian Fixed Interest

The UBSA Composite Bond all Maturities index rose 0.6% in April. Market concerns about Greece led to a flight-to-quality rally in the long end of the Australian yield curve, although Australian government bonds failed to match the rally in US bonds. Yields on 10 year government bonds fell to 5.71% in April (down from 5.78% in March).

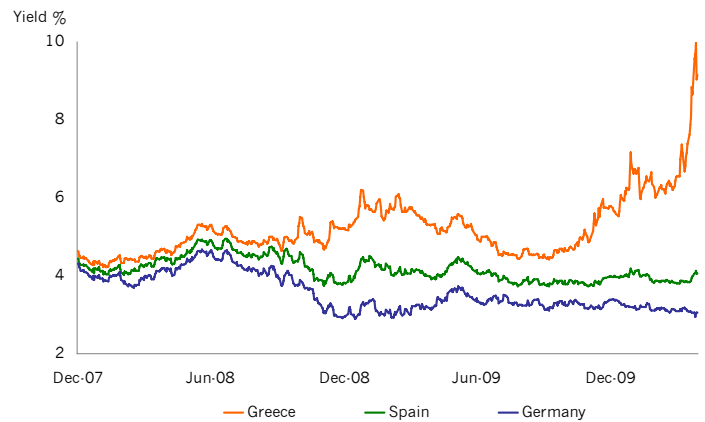
At the shorter end of the yield curve, bank bill yields rose as the RBA lifted the cash rate and markets priced in more risk of further tightening later in the year. Expectations for further RBA tightening were supported by solid business and consumer confidence surveys, and another 19,600 rise in employment in March

Elsewhere, for most of the month the tension between domestic strength and offshore concerns was resolved by Australian bond markets trading sideways.

## Global Fixed Interest

The Barclays Capital Global Aggregate (hedged, \$A) rose 0.9%. Yields in key major markets drifted lower in April as safe-haven buying trumped improved economic data. Investors favoured more highly rated major bond markets, particularly the US, in preference to more peripheral European markets where sovereign risk concerns were elevated. As the graph on the next column illustrates, the Eurozone debt crisis widened as Greek sovereign debt was

downgraded to "junk" status. Fears of contagion crystallised, with subsequent downgrades of Spain and Portugal. Yields on 10 year US Treasury yield fell to 3.66% (down from 3.83% in March).



Source: ipac, Bloomberg. Data to 30 April 2010.

In the US, consumer spending climbed 0.6% in March - the most in five months, after increasing 0.5% the previous month. The Institute for Supply Management's index of manufacturing rose to 60.4 in April, the highest level since June 2004, from 59.6 in March. Readings greater than 50 signal expansion.

Corporate credit markets remained resilient during April, as many global issuers were pre-occupied by Q1 earnings season and Euro sovereign concerns, and global corporate bond issuance was muted during April.

## Australian Listed Property

The S&P ASX 300 A-REIT index was up 3.9% in April, outperforming the broader sharemarket by 5.2%. Investors continued to pursue stocks that they believed could surprise on earnings as the global recovery continued.

For the second month running, the top two sectors over the month were Industrial (6.7%) followed by Retail (6.3%). Diversified (0.2%) was the worst performing sector.

The top performing trusts for the month were Goodman Group (9.2%), Charter Hall Group (8.5%) and Westfield Group (7.1%). Goodman Group benefited from continued confidence that management can deliver on their results. Charter Hall Group enjoyed similar positive sentiment, while Westfield Group saw strong performance with US retail sales exceeding forecasts.

The worst performing trusts for April were ING Industrial Trust (-2.2%) and Mirvac Group (-4.7%).

## Global Listed Property

The UBS Global Property Investors' index (hedged, \$A) rose 4.1% in April. The USA/Canada was the top performing region (6.8%) followed by Singapore (5.6%). The worst

performing regions were Continental Europe (-4.0%) and the UK (-1.6%).

An index of US pending home resales climbed 5% in March, following an 8.2% jump a month earlier. The housing market, which triggered the worst recession since the 1930s, has received a boost from a tax incentive, provided buyers signed the contracts by the end of April.

Housing starts increased for a second straight month in March and building permits, a sign of future building, jumped to the highest level in more than a year.

DR Horton Inc., the second-largest US homebuilder by revenue, reported its second straight quarterly profit as net orders jumped 55%. US property trusts have surged more than 20% in 2010.

## Australian Shares

The S&P/ASX 300 Accumulation index fell 1.3% in April, with weakness in the Resource and related sectors (contractors, steel) dampening the overall market.

Speculation of a new federal tax on resources following the Henry Review (subsequently confirmed) - in addition to negative overseas leads - weighed heavily on Resources stocks. Outperforming M&A targets Lihir Gold and MacArthur Coal were the exceptions that outperformed.

Healthcare stock, CSL, fell particularly hard following poor results from its US rival Baxter, who gave a downbeat assessment of the US plasma market when it released its results. Domestic retailers continued to struggle, not helped by a disappointing Q3 sales result from Harvey Norman. ANZ and Asciano's profit results were also not well received.

In contrast, earnings from Bank of Queensland and Macquarie were welcomed, while builders (strong leads from US peers), CBA, News Corp (strong US movie and TV releases), Paperlinx (closure of Burnie mill), Telstra (NBN deal speculation) and REITs outperformed. NAB rose despite the ACCC rejecting their takeover of AXA's Australian and New Zealand businesses.

## International Shares

Europe's sovereign debt crisis stifled the global equity market rally in April, with the MSCI World ex Australia (hedged, \$A) index up 0.7%. The unhedged return was -1.4%. In the US, the S&P500 climbed 1.5% in April following strong Q1 earnings results (Apple, Caterpillar, Citigroup, Intel, and Yahoo!) and encouraging economic data (especially employment and housing). The VIX (volatility) index fell to its lowest level in almost three years.

Consistent with the economic trends, cyclical Consumer, Construction and IT stocks outperformed defensive Health and Consumer Staple names.

Risk aversion returned late in April as Greek government bond yields soared after being downgraded to 'junk', with investors contemplating a real risk of sovereign default. This led to fears of another credit crunch if the contagion spread to other highly-indebted Euro members such as Spain and Portugal. Fears of increasing financial regulation also scared the market, fuelled by civil action against Goldman Sachs (-15%) over its behaviour prior to the GFC.

European markets (France -4%, Germany -0.3%, UK -2.2%) were hit hard by the worsening local debt crisis. Asian markets (Japan -0.3%, Korea 2.9%, Taiwan 1.1%) performed much better, helped by the more positive regional and US outlook.

## Global Emerging Markets

The MSCI EM index (\$A) was down 0.2% in April. China fell on concerns of an overheated property market, and the subsequent clampdown by the government on property speculation. Up to 60% of the country's gross domestic product relies on construction.

The government in April banned loans for third homes and raised mortgage rates and down-payment requirements for second-home purchases. Prices rose 11.7% across 70 cities in March compared to a year earlier, however, the government has stopped short of raising interest rates to contain property prices. The Government said it remained committed to expansionary policies to cement the nation's recovery.

China's economy grew 11.9% in the first quarter, the fastest pace in almost three years. The government projects gross domestic product growth for the year at around 8%.

## investment markets data

**table 1 - investment market performance to 30 April 2010**

asset class	index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Australian Cash	UBSA Bank Bill Index	0.3	1.0	2.0	3.6	4.9	5.7	5.8
Australian Fixed Interest	UBSA Composite Bond Index	0.6	0.5	2.9	3.3	7.9	6.5	5.8
Global Fixed Interest	Barclays Capital Global Agg (Hedged) Index	0.9	2.2	4.3	10.5	9.2	8.6	7.2
Australian Listed Property	S&P/ASX 300 A-REIT Index	3.9	5.3	6.7	38.9	-22.9	-23.1	-6.5
Global Listed Property	UBS Global Investors Index (AUD Hedged) Index	4.1	15.2	20.5	56.8	-12.9	-14.8	n/a
Australian Shares	S&P/ASX 300 Accum Index	-1.3	6.5	5.4	32.5	-3.0	-4.0	8.4
International Shares (Unhedged)	MSCI World Ex Australia (AUD Unhedged) Index	-1.4	2.7	6.2	7.4	-8.5	-10.4	-0.5
International Shares (Hedged)	MSCI World Ex Australia (AUD Hedged) Index	0.7	9.8	14.2	36.2	-6.9	-6.5	4.1
Global Smaller Companies	MSCI World Small Cap (AUD unhedged) Index	2.4	9.3	16.1	21.8	-0.4	-8.1	2.3
Global Emerging Markets	MSCI EM in AUD (div reinvested) Index	-0.2	4.8	9.1	24.0	-4.7	0.2	12.5

**table 2 - breakdown of Australian & global fixed interest market performance to 30 April 2010**

asset class	index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Aust Fixed Interest	UBSA Corporate/Credit	0.7	1.3	3.8	8.0	8.9	6.7	6.1
	UBSA Government/Treasuries	0.5	-0.1	2.2	-0.2	7.1	6.3	5.5
	UBSA Semi-Government	0.6	0.4	3.0	3.2	8.3	6.9	6.0
Global Fixed Interest	Barclays Capital Global Agg Credit (Hedged)	1.3	3.1	6.2	20.6	9.6	7.9	6.8
	Barclays Capital Global Agg Govt (Hedged)	0.7	1.9	3.5	7.0	8.7	8.5	7.1
	Barclays Capital Global Agg Securitised (Hedged)	0.9	2.3	4.6	11.0	10.3	9.6	7.8

**table 3 – performance of major Australian shares market indices to 30 April 2010**

index	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
S&P/ASX 20 Leaders Accum Index	-1.8	7.0	5.6	32.2	1.6	1.0	11.1
S&P/ASX 50 Leaders Accum index	-1.6	6.6	5.7	31.8	-1.4	-2.5	8.9
S&P/ASX 100 Accum Index	-1.5	6.5	5.5	32.0	-2.2	-3.3	8.6
S&P/ASX 200 Accum Index	-1.4	6.5	5.6	32.4	-2.9	-3.8	8.4
S&P/ASX 300 Accum Index	-1.3	6.5	5.4	32.5	-3.0	-4.0	8.4

**table 4 - breakdown of Australian shares market performance by sector to 30 April 2010\***

sector name	1 mth %	3 mths %	6 mths %	1 yr % pa	2 yrs % pa	3 yrs % pa	5 yrs % pa
Consumer Discretionary	-0.5	7.1	5.3	36.3	-4.1	-14.2	-0.1
Consumer Staples	-4.0	5.8	0.1	15.5	1.4	-0.3	10.9
Energy	-2.4	7.5	-0.1	14.7	0.2	9.3	18.0
Financials	0.9	7.8	5.9	47.4	1.1	-7.1	5.7
Financials Ex Property Trusts	0.4	8.2	5.8	48.8	6.8	-3.4	8.5
Health Care	-6.7	3.0	1.5	7.1	-3.2	1.1	13.7
Industrials	-1.7	2.7	3.7	41.9	-9.2	-13.1	0.9
Information Technology	-2.5	4.8	7.2	37.1	14.2	-0.7	15.1
Materials	-3.9	6.8	10.3	32.2	-8.2	3.3	16.4
Property Trusts	3.9	5.3	6.7	38.9	-22.9	-23.1	-6.5
Telecommunications	5.5	-0.8	-0.8	1.9	-10.4	-6.9	-1.4
Utilities	-0.1	5.6	6.5	7.9	-8.2	-11.3	3.4

\* Based on S&P/ASX 300 Accum Indices (reclassified in accordance with the Global Industry Classification Standard "GICS").

**top 5 performing Australian shares in April 2010\***

share	return %
Lihir Gold Limited.	25.74
Bank of Queensland Limited.	9.54
Goodman Group	9.16
Westfield Group	7.13
Macquarie Group Limited	6.43

**bottom 5 performing Australian shares in April 2010\***

share	return %
Onesteel Limited	-9.49
Alumina Limited	-9.57
Asciano Group	-10.29
CSL Limited	-11.09
Energy Resources Of Australia Limited	-16.51

\* Based on the universe of S&P/ASX 100 Index.

**table 5 - breakdown of international shares market performance by country to 30 April 2010**

	<b>1 mth</b>	<b>3 mths</b>	<b>6 mths</b>	<b>1 yr</b>	<b>2 yrs</b>	<b>3 yrs</b>	<b>5 yrs</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
United States: S&P 500	1.5	10.5	14.5	36.0	-7.5	-7.1	0.5
Germany: DAX	-0.3	9.4	13.3	28.6	-6.0	-6.1	8.0
United Kingdom: FTSE 100	-2.2	7.0	10.1	30.9	-4.5	-4.9	3.0
France: CAC	-4.0	2.1	5.8	20.8	-12.6	-13.8	-0.5
Japan: Nikkei	-0.3	8.4	10.2	25.3	-10.6	-14.0	0.1
Hong Kong: Hang Seng	-0.6	4.9	-3.0	36.0	-9.5	1.3	8.7

Note: All returns are calculated in local currencies.

**table 6 - breakdown of international shares market performance by sector to 30 April 2010\***

<b>sector name</b>	<b>1 mth</b>	<b>3 mths</b>	<b>6 mths</b>	<b>1 yr</b>	<b>2 yrs</b>	<b>3 yrs</b>	<b>5 yrs</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>	<b>% pa</b>
Consumer Discretionary	3.5	14.7	21.0	35.1	-2.6	-8.9	0.9
Consumer Staples	-1.6	4.5	8.5	29.4	-0.8	-0.8	5.2
Energy	2.2	7.1	5.8	22.8	-11.9	-2.4	5.6
Financials	-0.7	8.8	6.0	33.2	-19.0	-20.9	-6.7
Health Care	-3.3	-0.9	8.2	25.5	-0.4	-5.6	0.3
Industrials	2.2	13.9	21.3	39.8	-9.7	-8.9	2.1
Information Technology	1.7	12.7	16.0	38.2	-1.9	-2.4	4.4
Materials	-2.0	10.1	15.8	36.1	-11.5	-3.9	8.6
Telecommunications	-2.3	2.1	2.2	11.6	-10.3	-9.5	-0.9
Utilities	-1.0	1.5	5.1	10.8	-13.6	-10.6	1.6

\* Based on MSCI World Indices (reclassified in accordance with the Global Industry Classification Standard "GICS").

Note: All returns are calculated in local currencies.

## economic indicators

	quarter	year
<b>economic growth</b>		
Australian GDP	0.9% (Dec 09)	2.7% (Dec 09)
United States GDP	3.2% (Mar 10, annualised)	2.5% (Mar 10)

<b>inflation</b>		
Australian CPI	0.9% (Mar 10)	2.9% (Mar 10)
United States CPI	0.1 % (Mar 10, annualised)	2.3% (Mar 10)

	latest	12 months earlier
<b>unemployment</b>		
Australian Unemployment Rate	5.3% (Mar 10)	5.7% (Mar 09)
United States Unemployment Rate	9.7% (Mar 10)	8.6% (Mar 09)

	30 April	31 March
<b>official interest rates</b>		
RBA cash rate	4.25	4.00
US Fed Funds rate	0.25	0.25

<b>10 year bond yields</b>		
Australian Interest Rates - 10 year bond yield	5.71	5.78
United States Interest Rates - 10 year bond yield	3.66	3.83

<b>exchange rates</b>		
AUD/USD Exchange Rate	0.9309	0.9179
AUD/EUR Exchange Rate	0.7001	0.6783
AUD/GBP Exchange Rate	0.6081	0.6051
AUD/JPY Exchange Rate	87.5092	85.7639

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