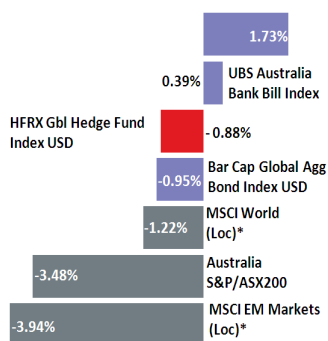


8 December 2011

## In this issue

- > Risk Monitor – What to watch
- > Currency Corner – AUD Outlook
- > In Focus – Oz banks rating

## November 2011



## What's changed in November?

Events related to Europe's sovereign debt crisis drove markets throughout November. Sentiment was negative for the first three weeks as investors priced an increasing probability of a sovereign default. In the last week of November, strong US economic data and the announcement of coordinated central bank action led to a strong rally in risk assets.

- US equities were the notable performers, with large caps posting gains over 1% and the S&P500 narrowly missing a positive number, down 0.22%. This was a great outcome compared to European and Asian markets
- Emerging market equities underperformed developed markets as investors lost their appetite for riskier assets
- Sovereign bonds in Europe had a torrid month, and in a sign of contagion, German bunds lost 0.6% while US treasuries and UK gilts were up
- Credit indices were negative across the board, with lower-rated high yield and financial sub indices printing the biggest losses
- The USD enjoyed gains against the Euro, GBP and AUD, but it lost some ground against the Yen

**Rodrigo Catril CFA**  
Investment  
Strategist

## Déjà vu?

Macro-economic themes continued to drive global markets throughout November. Earlier in the month, all eyes were on Italy as its government bond yields skyrocketed following investor loss of confidence in Berlusconi's government. Eventually, he was replaced by a technocratic administration headed by Mario Monti. While the market rallied initially, as the month went by, concerns over many European governments and banks dominated the headlines.

Meanwhile, the US economic data in November was generally positive. However, politicians disappointed once again, with the Congressional Budget Super Committee failing to reach a deficit reduction agreement, perhaps signalling a prelude to next year's challenges in the US. When assessing the major events during November, we can't help that feeling of déjà vu as the political stalemate in the US as well as the build-up of expectations over a "new" grand plan in Europe feel terribly familiar. Early in December, and on the eve of the EU Summit, Sarkozy and Merkel announced

plans for 'modifications' to the EU Treaty balanced budget rules with automatic sanctions (but does anyone remember the Growth and Stability pact?) In theory, this time the process will be policed by the EU Commission and then enforced by the European Court of Justice. Ultimately, the objective is to have some form of fiscal union or rules which should convince the European Central Bank (ECB) to come to the party. In the past, moral persuasion has not worked, this time around offenders may well be shown the door.

Either way, reaching an accord is one thing, ratification and implementation across at least 17 countries is another. Thus, we are still a long way from concrete enforceable measures. Fiscal rules are a welcome step towards a more stable environment, but funding is the biggest problem and the ECB is the only institution with the financial capability of being the lender of last resort. There is no quick fix to the European crisis and those with the hopes of a "Big Bazooka" are likely to be disappointed once the details from the EU Summit are known.

## Looking ahead

### We remain cautious with no changes to our Asset Allocation

We are of the view that the most likely outcome is for the European Union to muddle through. A solution is likely to be along the lines of some quantitative easing by the ECB, fiscal union or common enforceable fiscal rules and restructuring as well as the possible exit by some of its members.

This path, however, is unlikely to be a smooth one. History tells us that we are probably going to have to walk closer to the abyss in order to force a change of course. This exercise is likely then to be repeated several times before we get there.

We have made no changes to our asset allocation. We remain cautious as European politicians have made it hard for us to be more optimistic. The significant challenges ahead set limitations to our short term expectations, and as a result we have a more subdued outlook on economic growth and equity market returns.

In this environment a focus on risk management and income strategies is

imperative. Within equities we have a preference for large caps, with an emphasis on high sustainable dividend yields as well as income enhancement derivative strategies. In fixed income, our choice is for diversified credit excluding financials and we continue to favour domestic term deposits.

## Summary of policy developments

**US Budget Cuts** –The US Budget Super Committee failed to reach an agreement on \$1.2trn of cuts over the next decade

**Mining Tax** - The House of Representatives passed the mining tax bills 73-71, after the Government struck a deal with the Greens committing to further Budget savings. Independent Wilkie's amendment to raise the tax threshold from \$50m to \$75m was also passed.

## Asset allocation

### Equities

#### Australia

The S&P/ASX 200 accumulation index gave back some of the stellar returns from the previous month, falling 3.5% in November. Macroeconomic themes arising from the European debt crisis were the main driver of returns. Domestically, these concerns were mainly expressed in the two largest sectors, materials and financials, as investors questioned how our resource-focussed economy would cope with a funding crisis and slowdown in China.

The materials sector was down 6.4%, while banks lost 4.3%. Defensive sectors such as REITS, telecommunications and utilities posted positive returns in a downward market. Consumer discretionary remained under pressure in a weak domestic environment despite the RBA rate cut earlier in the month.

Based on long-run average multiples, Australian equities remain attractive, with the market currently trading at 10.7 times 2012 forecast earnings and well below its 15 year average of 14.5 times. We remain neutral Australian equities, as in our view it is likely that valuations will continue to stay attractive for some time, until there is more clarity on the resolution of the European debt crisis.



#### We suggest:

**Continue to remain in larger defensive companies with high sustainable dividend yields.**

#### International Equities

Events related to Europe's sovereign debt crisis drove markets throughout November. Sentiment was negative for the first three weeks as investors priced an increasing probability of a sovereign default. In the last week of November, strong US economic data and the announcement of coordinated central bank action led to a strong rally in risk assets, particularly in equities.

US equities were the notable performers, with large caps posting gains of over 1% and the S&P500 narrowly missing a positive number, down 0.22%. This was a great outcome compared to European and Asian markets. Spain and Italy were down by more than 4% while France lost nearly 3%. Fears of a property meltdown saw the Hang Seng in Hong Kong collapse by more than 9% while Japan's Topix slid nearly 5%.

Developed market valuations do not appear unusually stretched based on historical

measures. In addition to the price/book and price/earnings ratios, cyclically-adjusted price/earnings (CAPE) and Tobin's equity Q ratios are also supportive. We remain cautious, and although there are some positive signs that policymakers in Europe may be closer to concrete proposals, the crisis is far from over.



#### We suggest:

**We have a preference for US over Europe. Large capitalisation companies recommended with sustainable dividend yields.**

#### Emerging Market Equities (EM)

Equities in emerging markets generally underperformed those in developed markets. Asia ex-Japan fared worst in US Dollar terms among the main emerging market regions, with the MSCI EM Asia index down over 8% in November. Notable as well, the stock market in India came under pressure from a renewed outflow of foreign capital with the Sensex index falling by 9.2%

Equities in Latin America did not perform much better, with the Latam MSCI index down over 6%. Emerging Europe fared rather less poorly, despite its proximity to the Euro-zone. Nonetheless, this outperformance only occurred closer to the end of the month after sentiment towards the single currency area improved.

Like developed nations, valuations make a compelling case for EM equities, and the healthier economic conditions of many EM countries gives us more comfort. The expected slowdown in economic growth across developed nations is a significant headwind for global demand generally and may present a tough challenge for some EM economies. However, as a whole, the healthier fiscal and domestic state of many emerging economies should help support domestic demand in the event of a slowdown in global growth.

We continue to believe EM equities should outperform developed market equities over a 12-month period.



#### We suggest:

**Emerging market equities to marginally outperform developed markets. No regional preference.**

### Fixed income

#### Australian Cash

Early in December the RBA lowered the official cash rate by 25 basis points (bps) to 4.25%, following the 25bps cut in November. In the statement, the Board acknowledged that the current sovereign credit and banking problems in Europe means that the likelihood of a material slowing in global growth has increased. Trade in Asia is now being affected, as well as commodity prices, although they still remain at high levels.

Domestically, the economy has been growing close to trend, with resource sector growth strong, but credit growth has been subdued, asset prices have declined further, the AUD remains high and labour market conditions are softer. The risk of high wages growth outside the mining sector has lessened. Term funding conditions for financial institutions have become more difficult. Importantly, the RBA reiterated that the inflation outlook is likely to be consistent with its 2-3% target range ahead.

The RBA is not signalling that a sequence of cuts is probable from here. However, it seems likely to us that by the next Board meeting (in early February), the outlook for global growth will be worse and we expect the next inflation outcome, due in late January, to be another low reading. The directional bias for rates from here will be down for the next two or three quarters. Hence, there is scope for another cut in rates to 4% at the February meeting.

We remain neutral on cash, term deposits remain attractive although the recent decline in the cash rates means that domestic fixed income is becoming more appealing.



#### We suggest:

**Term deposits remain attractive. We prefer 12-month deposits.**

#### Australian Fixed Income

Government bond yields rallied along the curve. Three-year yields gave up nearly 80 basis points while ten-year yields dropped by 60bps. Domestic credit was affected by the escalating crisis in Europe, credit spreads widened and index-linked bonds benefited from the flight to quality.

Australian government bonds gained nearly 2.5% in November, while the longer-dated index-linked bonds were the biggest movers, returning over 4% for the month. Credit still managed a positive return as the widening in spreads was counteracted by the drop in

## Asset allocation

government yields.

The positive returns in November have vindicated our decision to move back to neutral. The deterioration in the global growth outlook is likely to support our defensive strategy.



**We suggest:**  
**Remain neutral favouring credit exposure.**

### Global Fixed Income

Sovereign bonds in Europe had a torrid month with yields on some peripheral countries breaking through record highs. However, the most notable and worryingly contagious sign was the rise in German yields.

In November, and breaking from the norm so far in this crisis, in addition to peripheral countries recording negative returns, German bunds were also down, losing 0.6% for the month. In contrast, in a sign of safe haven demand, US treasuries and UK gilts enjoyed positive returns, up 0.6% and 2.1% respectively.

Even after the announcement of a EU Treaty involving greater fiscal union, implementation and ratifications are likely to be the biggest risks over the near term and the worrying signs of a looming European recession will keep European sovereign yields volatile, with the US and UK likely to benefit from a flight to quality. We continue to be underweight sovereign bonds.



**We suggest: Remain underweight global fixed income. Avoid European sovereign bonds.**

### Global Credit

A widening of credit spreads was characteristic of all credit markets during November. The heightened level of uncertainty in Europe meant that financials and high yield debt suffered the biggest widening moves, and even within high yield, the higher quality BB/B outperformed CCC and distressed debt. A similar pattern was notable in the US market, with negative returns across all credit sectors, with the underperformance increasing along the lower quality spectrum, but not in the same magnitude as in Europe.

In Europe, high yield debt lost over 5% while corporate high grade was down by 3.1%, but not surprisingly the largest losses were incurred in financial sector subordinated debt, down 9%. In the US, high yield gave back over 2% in November, but interestingly it remained in positive territory on a year-to-date basis.

Last month, we highlighted political risk as an additional consideration for investors and with the expectations of a grand treaty in Europe, the challenge of ratification by at least 17 countries is likely to keep politics at the front of the agenda. Liquidity was also one of our concerns. The coordinated efforts by central banks should help over the near term, but unless concrete and credible measures are implemented, the spike in funding costs may reappear again.

We maintain our preference for non-financial investment grade corporate debt and continue to avoid high beta names until the cloudy outlook becomes clearer. Within fixed income, we continue to prefer companies with strong balance sheets and stable cash-flow streams.



**We suggest:**  
**Global credit likely to outperform sovereign fixed income over the next 12 months.**

### Alternatives

Hedge funds were mostly down in November with the HFRX Global Hedge Fund Index declining by -0.9%, as gains from strategic positioning in macro funds failed to offset losses across other strategies.

The HFRX Macro/CTA index gained 0.3% with positive contributions from systematic strategies partially offset by macro discretionary funds. Systematic strategies benefitted from exposure to oil, while gas and soft commodities detracted from gains. Long exposure to the US Dollar against the Euro contributed to gains, with the HFRX Systematic Diversified CTA index posting a gain of 1.4% for November. Discretionary currency managers experienced mixed performance, while commodity strategies declined.

The HFRX Equity Hedge index declined 1.3% as positive performance from fundamental value strategies was offset by declines in fundamental growth and market

neutral positioning. The HFRX Event Driven (ED) index posted a decline of 1% for November, with negative contributions from most ED sub strategies, though the index posted its largest daily performance in two years on the last day of the month. With the combination of the continued uncertainty in the European sovereign debt crisis and bankruptcy filing of American Airlines, credit spreads widened for the month, with the HFRX Distressed index posting a decline of 2.4%. The HFRX Relative Value Arbitrage index declined 1.2% as falling yields failed to offset weakness in corporate credit and European sovereign fixed income.



**We suggest:**  
**Remain overweight alternative investments, particularly equity long/short, global macro and event driven strategies.**

### Real Estate

The latest monthly home value re-sale price report from RP Data-Rismark shows further declines across the capital cities in October. Dwelling prices in seasonally-adjusted terms fell by 0.5% over the month, now down 4.0%yoy. This was the 10th consecutive monthly fall in house prices.

By state capitals, Melbourne, Brisbane,, Adelaide, Perth and Darwin all saw declining prices in the month of October with all of these capitals now with prices lower than year earlier levels. Sydney prices have fared better as have Canberra's real estate prices. Hobart prices rose in September (latest available) but are down overall over the year, in line with the national trend.

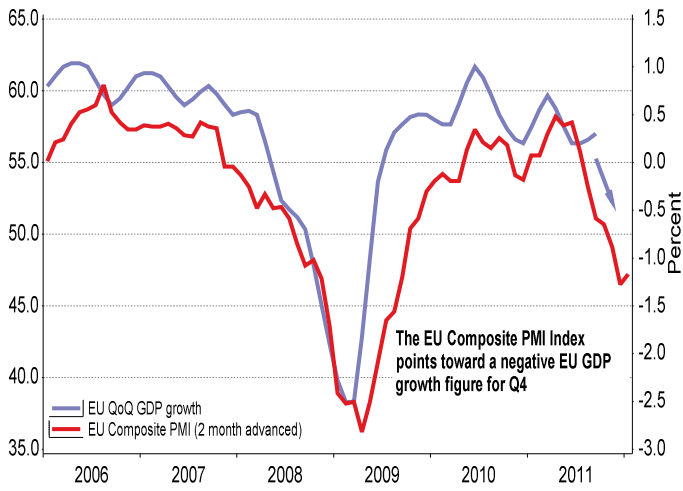
Re-sale prices have continued to decay with demand capped by on-going household balance sheet repair and some incremental worsening of the labour market. The two consecutive RBA rate cuts should provide some support over the coming months, but is difficult to see house prices rebounding significantly until consumer sentiment improves.



**We suggest:**  
**Remain underweight real estate, selective opportunities in Australia and Asia.**

## Asset allocation

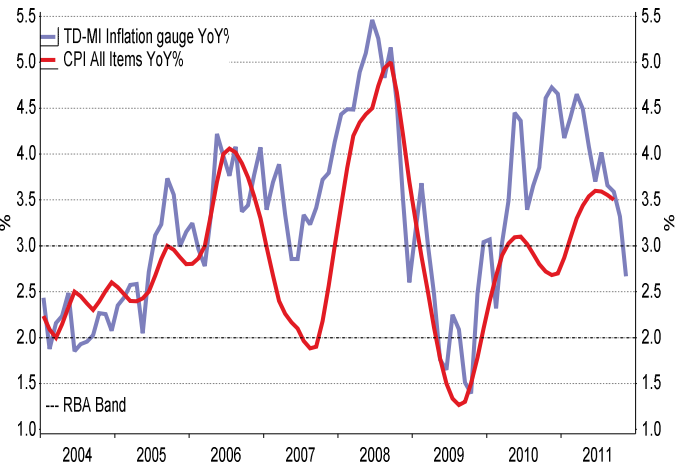
**Euro-Zone GDP and Composite PMI**



Source: Reuters EcoWin

**Australia's Inflation**

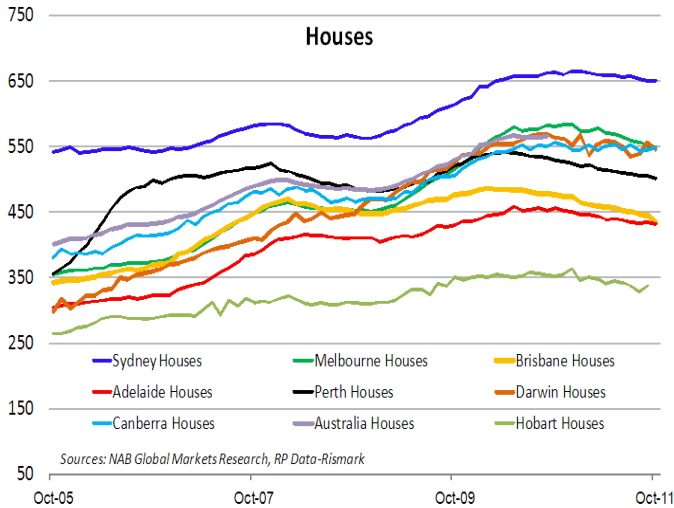
The recent downward trend gives the RBA room to move



Source: EcoWin

**Capital city residential prices**

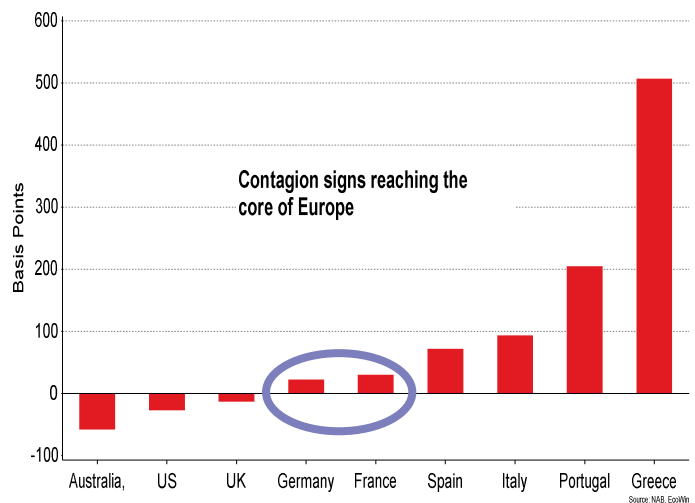
**Houses**



Sources: NAB Global Markets Research, RP Data-Rismark

**Monthly Yield Changes**

November 11



Contagion signs reaching the core of Europe

Source: NAB, EcoWin

## About our recommendations



The Asset Allocation recommendations reflect the NPW's views on the relative attractiveness of the asset class over a 1–3 year holding period. A neutral allocation (orange) means hold a neutral strategic allocation to the asset class, single minus underweight (orange) or single plus overweight (light green) recommendations are meant to rebalance the asset class progressively towards the bottom or top of your strategic asset allocation range using cashflows inflows or outflows to the portfolio. A double plus overweight (dark green) or double minus underweight (red) recommendation is intended to be rebalanced to the top end or bottom end of your strategic asset allocation range immediately by selling some assets and buying others

## Currency Corner

The AUD/USD has plumbed the lows of US\$0.96 and returned to US\$1.03 in recent weeks. This volatility is a product of the ongoing uncertainty in Europe and the ebb and flow of market expectations for a more permanent Euro-area remedy which weighs on the AUD due to both growth and interest rate expectations, as well as the time-honoured correlation with the Euro. We expect this volatility to continue, with the AUD moving higher on any liquidity boost and affirmative policy action in Europe. However, the AUD highs are getting lower and the broader economic data is beginning to soften. This confirms our earlier belief that the AUD will not be able to sustainably return to its highs.

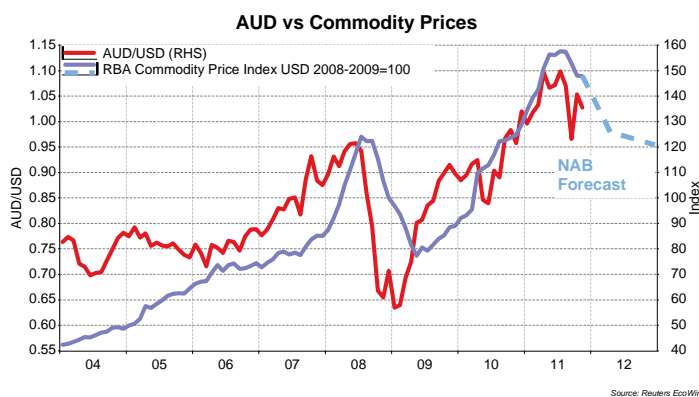
China's growth has been an extremely strong supporter of the Australian economy and the AUD. The relationship between the AUD and the rest of the world has changed, as this reliance on China increased. This relationship likely ensures that the AUD's long term value has risen in the last decade. But there are two sides to this story and the downward pressure is beginning to assert itself. Last week, the China manufacturing PMI recorded a sub-50 reading for the first time since China was recovering from the financial crisis of 2008. The underlying details were also poor. China's property prices are necessarily declining, as the authorities take the heat out of the sector in order to address affordability issues. We do believe that there is more than enough policy scope to ensure that the necessary policy accommodation is achieved to avoid a hard landing in China. But, it is likely that growth is slowing. This is a net negative for the AUD

The long term prospects for Australia's minerals and mining sector remains solid. This allows the AUD/USD to achieve

levels well above the US 75 cent long term, post-float average. However, at a starting point of parity, there are risks associated with a broader slowdown, globally. Last week's RBA commodity price index also pointed to this expected reduction in commodity prices, which limits the AUD upside. The RBA eased rates early in December, which was almost fully priced in, and they have left the outlook for rates data dependent (hence the sensitivity of AUD to local data ahead) and the volatility associated with Europe. We believe that there will be a further easing at the next meeting in February.

The AUD/USD is likely to remain range-bound at US\$0.96 – US\$1.03 until we see a definite Euro outcome or confirmation of China slowing. Low domestic employment is also a risk.

**We suggest:**  
**Maintain AUD/USD strategic hedge ratio at 75%**  
**(Last change May 2011)**



|                           | Income Focus   | Growth Focus  | Opportunistic Trade Ideas   |
|---------------------------|--|---|---|
| Liquid                    | <ul style="list-style-type: none"> <li>• Australian buy-write or reverse convertible strategies</li> <li>• Diversified global credit</li> <li>• Domestic term deposits</li> <li>• Inflation-linked bonds and deposits</li> <li>• Insurance-linked investments</li> <li>• Australian bonds</li> </ul> | <ul style="list-style-type: none"> <li>• US shares – large capitalisation, major brands</li> <li>• Australian shares – large capitalisation, defensive sectors with high fully-franked dividends</li> <li>• Long/Short equity hedge funds particularly Asian-focused funds</li> <li>• Systematic macro hedge funds</li> </ul> | <ul style="list-style-type: none"> <li>• Buy AUD/USD on a dips below US\$0.97 sell above US\$1.05</li> <li>• Sell Australian March cash rate futures</li> </ul> |
| Illiquid                  | <ul style="list-style-type: none"> <li>• Mezzanine and private debt</li> <li>• Unlisted Infrastructure</li> </ul>  | <ul style="list-style-type: none"> <li>• Diversified private equity – fund secondaries and co-investments</li> <li>• Opportunistic property</li> <li>• Australian water entitlements</li> </ul>   |   |
| All-weather portfolio     | 60–70%   | 20–30%  | 0–10%   |
| Currency positioning      |  | 75% hedged into AUD / 25% unhedged  |   |
| Interest rate positioning |  | Shorter term fixed rate or floating rates   |   |

## Strategy

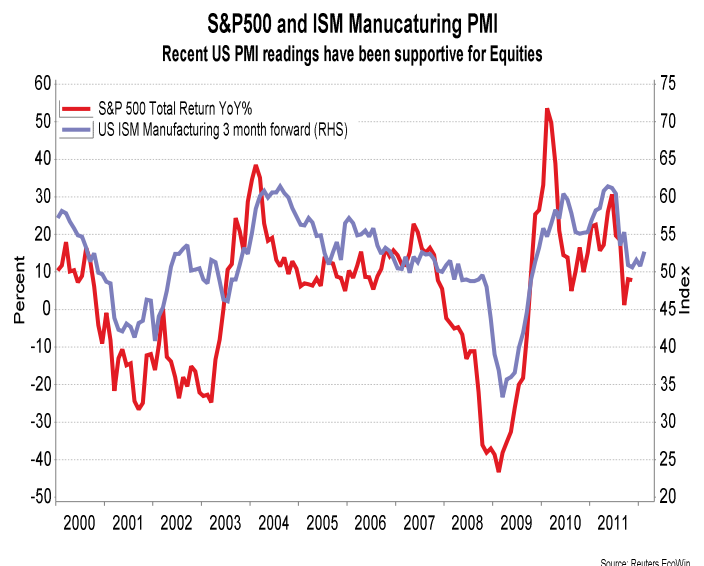
### Risk monitor – what to watch

We continue to focus on the issues likely to shape the pattern of asset returns over the remainder of 2011 and 2012. Rather than spending too much time thinking about what could go wrong, we also need to focus on what could go right. It's important to remember that current events have a way of shaping our longer-term thinking. We need to counter-balance this tendency by observing what the likely impact today's issues may have on valuations and sentiment, and understand what the risk/reward trade-off looks like under a variety of scenarios across multiple time-horizons.

- European debt crisis** – The uncertainty in Europe continues. We remain sceptical this last Euro Summit will deliver the all-in-all fix to the crisis, instead we are probably going to be as step closer to a plan that will eventually have greater role for the ECB and IMF to bail out troubled nations, and/or for the issuance of joint Euro bonds and/or for increased fiscal integration. There is a long and grinding road ahead. In the meantime, however, there were some positives in November. The coordinated efforts by central banks has helped reduced the premium that banks pay to access overnight USD, this should help improve liquidity in (only) the short-term. Recent bond auctions in France and Spain were seen as a success, due to the strong investor demand and Greece got its last bailout tranche while Italy approved a new austerity plan. Small steps, but at least in the right direction.
- Emerging market policy risk** – The expected slowdown in global growth driven by the current European problems is setting the stage for a loosening monetary policy cycle across emerging markets. Not all countries have the flexibility to do so - inflation is still high in Vietnam and India for instance. For some countries inflation still remains their first priority and now the challenge of balancing inflation and growth has been exacerbated by the European debt crisis.
- Currency impasse** – The ramifications of a European recession means that global growth expectations have also been pared. According to many commentators China's central bank has been extremely active in supporting the Yuan. It is difficult to see any significant strengthening of the Yuan against the US Dollar while the

current soft economic patch works its way through the economy. Similarly, a depreciation of the currency also risks reigniting a dispute with the US. Overall though, other smaller EM countries are likely to see their currencies depreciate as the European debt crisis evolves in 2012.

- US growth:** Despite the weakening global economy, the US economic data continues to steadily improve, albeit from a low level, and remains consistent with slow positive growth in the economy. In addition to the resilient ISM manufacturing index, consumer confidence has also improved. Private sector jobs growth continues and we had a surprise fall in the unemployment rate. US non-farm payrolls rose 120K in November with private payrolls +140K. It was the fifth consecutive reading for payrolls above 100K. The US is winning the least ugly sister contest at the moment, but there are still big challenges ahead. The housing market conundrum set limits any growth prospects in 2012 while next year's expected fiscal drag and political stalemate – elections and yet to be approve tax incentives - may have a negative impact on an already fragile economy.
- China hard or soft landing:** There is now mounting evidence that policy has begun to shift direction. Half way through the month, the People's Bank of China lowered the yield on one-year bills, and closer to the end of the month, the required reserve ratio for banks was lowered by 50 basis points. Around the same time, the flash PMI manufacturing number revealed the economy had slowed more than expected, printing a number below 50. We expect more policy loosening over the coming months, but it would take some time for these policy actions to have an effect in the economy.



## Strategy

### In Focus: Big four credit rating

## Comment on S&P's Australian banks downgrade and Moody's Banking System Outlook on Australia

### S&P

On the 1st of December, major Australian and NZ banks suffered a one notch downgrade from rating agency S&P to AA- from AA. The outlook was maintained at stable.

#### Summary of outcomes:

- A one notch downgrade of the major banks to AA-/Stable from AA/Stable
- The maintenance of the Macquarie Bank's rating at A/Stable
- A two notch downgrade of the rating on Macquarie Group to BBB/Stable from A-/Stable
- Attracting less attention was the three notch downgrade of the Big Four banks' subordinated debt ratings from AA- to A-
- On the short-term ratings front, all of the Big Four remain at A-1+

#### View:

- Given the well telegraphed review of the banks, and the market's general expectations that the major banks could be downgraded a notch following application of the new criteria, the actual downgrades are not surprising. It is likely that the uncertainty surrounding the European debt crisis will have more of an impact on credit spreads than the 'anticipated' downgrades.
- Despite the rating downgrades, the Australian major banks remain among the highest rated banks globally. Accordingly, we are not concerned about the major banks from a credit perspective.
- We would expect these actions will have little short term impact on the pricing of the senior unsecured debt of the Big Four. Problems and announced fixes (hopefully) from the European sovereign debt crisis are going to be the overwhelming drivers of credit spreads for the next couple of months. We may, however, see a little bit of pressure come on to the subordinated debt of the Big Four as the three notch downgrade may have taken a few by surprise. This is, in our opinion, not a near term risk, the Big Four have all been calling (i.e. repaying) their sub debt securities throughout the GFC and are expected to continue doing so through this crisis. If we see any pressure emerge on short-dated sub debt spreads (over and above what happens in senior unsecured securities) investors may want to think about taking advantage of it.

### Moody's

On a separate note, Moody's released a Banking System Outlook on Australia saying the outlook for the system remains stable (Note: Banking System Outlooks are applicable to 12-18 month periods).

In the report Moody's said "Our stable outlook is driven by the strength of the domestic economy supported by low unemployment and favourable growth prospects in 2012... This dynamic will support earnings and asset quality, although we anticipate pockets of deterioration in some business lines. The outlook also reflects our analysis that Australia has good monetary and fiscal policy flexibility to deal with weaker economic conditions and the floating currency has proven an effective stabiliser. Banks have built sizeable capital buffers to absorb asset quality weakness and they have a good measure of flexibility to deal with challenging conditions in international wholesale funding markets." Reliance on offshore wholesale funding is cited as a weakness but they have gone on to point out that customer deposits have been growing faster than loans and "...the strong financial condition of the banking system along with the Australia sovereign, continues to underpin investor appetite for Australian bank debt securities." Furthermore, Moody's views the Australian government as supportive for bank creditors. That said, "...the potential for protracted international funding market dislocations arising out of Eurozone contagion..." obviously presents downside risks.

## Strategy

### Current asset allocation and historical changes

| Asset Class            | View | Changed from | Date of change | Comments   |
|------------------------|------|--------------|----------------|--|
| Cash                   | N    | +            | Nov-11         | Whilst still attractive, Term deposits are under pressure with the RBA on data watch |
| Domestic Fixed Income  | N    | -            | Nov-11         | Government bond provide safe haven status keeping yields low                         |
| Global Fixed Income    | -    | N            | Jan-10         | Fundamentals remain unattractive   |
| Credit                 | N    | +            | Jan-10         | Healthy balance sheets provide appealing alternative to sovereign debt               |
| Australian Equity      | N    | +            | Feb-11         | Attractively priced but subdued earnings growth                                      |
| International Equities | N    | N            | -              | Mixed outlook – US and large caps preferred  |
| EM Equity              | N    | -            | Jan-10         | Policy headwinds abating – on positive watch   |
| Alternatives           | +    | +            | -              | Flexibility preferred in uncertain environments                                      |
| Real Estate            | -    | N/A          | Sep-10         | Yields and price growth generally unattractive relative to other sectors             |

## nabprivatewealth

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## Global performance markets monitor – 30 November 2011

|  | Last Price Level | Return 5 Day | MTD   | 3 Mth  | YTD    | 1 Yr   | 2010   | 2009   |
|--|------------------|--------------|-------|--------|--------|--------|--------|--------|
| <b>Global Equity Markets Performance</b>             |                  |              |       |        |        |        |        |        |
| Australia - ASX200                                   | 4119.8           | 1.7          | -3.5  | -2.8   | -9.3   | -6.0   | 1.6    | 37.0   |
| Japan - Nikkei 225*                                  | 8434.6           | 1.4          | -6.2  | -5.8   | -17.5  | -15.1  | -3.0   | 19.0   |
| Japan - TOPIX  | 728.5            | 1.5          | -4.7  | -4.5   | -17.1  | -13.4  | 1.0    | 7.6    |
| Hong Kong - Hang Seng                                | 17989.4          | 0.7          | -9.2  | -11.7  | -19.4  | -19.3  | 8.6    | 56.6   |
| Shanghai Composite (A&B)*                            | 2333.4           | -2.6         | -5.5  | -9.1   | -16.9  | -17.3  | -14.3  | 80.0   |
| Singapore - STI*                                     | 2702.5           | 1.0          | -5.4  | -6.3   | -15.3  | -14.1  | 10.1   | 64.5   |
| New Zealand - NZX50**                                | 3270.2           | 0.0          | -1.9  | -1.6   | -1.2   | 0.2    | 2.4    | 18.9   |
| US Dow Jones   | 12045.7          | 7.1          | 1.2   | 4.5    | 6.7    | 12.4   | 14.1   | 22.7   |
| US S&P 500   | 1247.0           | 7.4          | -0.2  | 2.9    | 1.1    | 7.8    | 15.1   | 26.5   |
| NASDAQ*  | 2620.3           | 6.5          | -2.4  | 1.6    | -1.2   | 4.9    | 16.9   | 43.9   |
| Canada - TSX   | 12204.1          | 5.5          | -0.2  | -3.7   | -7.1   | -3.3   | 17.6   | 35.1   |
| Mexico - MSCI*                                       | 34653.1          | 3.6          | 0.8   | 3.4    | -2.0   | 1.3    | 18.1   | 44.3   |
| India - Sensex*                                      | 4709.3           | 2.5          | -9.3  | -4.3   | -22.0  | -19.0  | 17.9   | 82.7   |
| Brazil - Bovespa**                                   | 56875.0          | 3.5          | -2.5  | 0.7    | -17.9  | -16.0  | 1.0    | 82.7   |
| UK - FTSE100   | 5505.4           | 7.2          | -0.2  | 2.9    | -3.4   | 3.2    | 12.6   | 27.3   |
| France - CAC40                                       | 3154.6           | 11.8         | -2.5  | -2.5   | -13.8  | -9.1   | 0.6    | 27.6   |
| Germany - DAX**                                      | 6088.8           | 11.6         | -0.9  | 5.3    | -11.9  | -9.0   | 16.1   | 23.8   |
| Spain - IBEX   | 8449.5           | 9.2          | -4.5  | -1.3   | -9.1   | -3.0   | -12.9  | 38.3   |
| Italy - MIB  | 15268.7          | 9.8          | -4.1  | -0.7   | -21.1  | -16.7  | -9.8   | 24.8   |
| <b>World/Regional Indices Performance</b>            |                  |              |       |        |        |        |        |        |
| MSCI World (Loc)*                                    | 2842.3           | 6.7          | -1.2  | 0.8    | -5.6   | -0.2   | 10.6   | 26.5   |
| MSCI World Value                                     | 1759.6           | 7.7          | -3.2  | -2.5   | -9.1   | -2.0   | 6.3    | 23.0   |
| MSCI World Growth                                    | 1288.1           | 7.1          | -2.2  | -1.9   | -5.8   | 0.5    | 12.9   | 30.9   |
| MSCI AC Europe*                                      | 720.6            | 8.5          | -1.2  | 1.4    | -9.7   | -4.8   | 8.0    | 30.2   |
| MSCI Asia ex Japan USD*                              | 456.3            | 2.4          | -8.4  | -11.2  | -19.6  | -15.2  | 17.0   | 68.3   |
| MSCI Emerging Markets Local                          | 41053.7          | 3.3          | -3.9  | -3.4   | -14.8  | -11.1  | 11.7   | 58.6   |
| World EPRA/NAREIT Property USD*                      | 2711.1           | 6.7          | -5.6  | -6.8   | -6.7   | -0.8   | 8.0    | 9.0    |
| <b>World/Regional Indices Performance</b>            |                  |              |       |        |        |        |        |        |
| MSCI World Cons Discretionary                        | 105.5            | 1.3          | -8.6  | -3.2   | -8.5   | -4.9   | 22.0   | 38.5   |
| MSCI World Cons Staples                              | 139.4            | 1.0          | -3.8  | -1.0   | 2.0    | 6.1    | 9.5    | 19.5   |
| MSCI World Energy                                    | 230.0            | 1.2          | -8.8  | -1.6   | -5.9   | 2.8    | 9.0    | 23.8   |
| MSCI World Financials                                | 62.3             | 1.3          | -14.8 | -11.0  | -24.1  | -18.5  | 2.3    | 28.6   |
| MSCI World Health Care                               | 104.4            | 1.0          | -6.1  | -3.2   | 0.3    | 4.4    | -0.3   | 17.6   |
| MSCI World Industrials                               | 131.4            | 1.4          | -8.9  | -4.4   | -13.6  | -7.3   | 20.2   | 25.5   |
| MSCI World Materials                                 | 216.6            | 1.9          | -12.1 | -12.1  | -21.4  | -12.9  | 19.1   | 58.6   |
| MSCI World Telecommunications Serv                   | 54.2             | 0.3          | -7.7  | -5.5   | -6.7   | -2.7   | 4.5    | 9.1    |
| MSCI World Utilities                                 | 100.5            | 1.1          | -6.1  | -3.0   | -8.8   | -5.4   | -5.3   | 2.8    |
| MSCI World Information Technology                    | 84.8             | 0.1          | -7.8  | 0.4    | -5.4   | -0.8   | 8.6    | 53.1   |
| <b>Global Rates Levels Change</b>                    |                  |              |       |        |        |        |        |        |
| AUS - 10Y Govt                                       | 3.97             | 0.05         | -0.57 | -0.43  | -1.55  | -1.46  | -0.21  | 1.74   |
| AUS - 3Y Govt  | 3.17             | 0.07         | -0.78 | -0.64  | -2.07  | -1.89  | 0.58   | 1.61   |
| AUS 5 yr Swap Rate                                   | 4.31             | 0.07         | -0.42 | -0.46  | -1.56  | -1.43  | -0.06  | 1.63   |
| AUS 3 yr Swap Rate                                   | 3.87             | 0.07         | -0.48 | -0.50  | -1.65  | -1.55  | 0.09   | 1.52   |
| AUS 1 yr Swap Rate                                   | 3.74             | -0.02        | -0.60 | -0.51  | -1.46  | -1.42  | 0.50   | 1.47   |
| 3 Mnth Bill Rate                                     | 4.95             | 0.00         | -0.05 | -0.05  | -0.20  | -0.48  | 1.10   | -0.50  |
| US - 30Y Govt  | 3.06             | 0.21         | -0.07 | -0.55  | -1.28  | -1.06  | -0.30  | 1.96   |
| US - 10Y Govt  | 2.07             | 0.18         | -0.05 | -0.16  | -1.22  | -0.73  | -0.55  | 1.62   |
| US - 5Y Govt   | 0.95             | 0.07         | -0.01 | -0.02  | -1.05  | -0.51  | -0.68  | 1.13   |
| US - 2Y Govt   | 0.26             | -0.01        | 0.01  | 0.05   | -0.35  | -0.20  | -0.54  | 0.38   |
| TIPS 10  | 0.00             | 0.02         | -0.05 | -0.18  | -0.98  | -0.68  | -0.48  | -0.67  |
| 10y Breakeven  | 2.07             | 1.91         | 2.07  | 2.06   | 2.31   | 2.12   | 2.15   | -0.22  |
| Bund - 30Y Govt                                      | 2.93             | 0.22         | 0.11  | -0.16  | -0.51  | -0.22  | -0.67  | 0.58   |
| Bund - 10Y Govt                                      | 2.28             | 0.26         | 0.22  | 0.06   | -0.68  | -0.40  | -0.42  | 0.44   |
| Bund - 5Y Govt                                       | 1.16             | 0.05         | -0.02 | -0.15  | -0.67  | -0.52  | -0.62  | 0.10   |
| Bund - 2Y Govt                                       | 0.33             | -0.12        | -0.23 | -0.40  | -0.52  | -0.53  | -0.52  | -0.37  |
| Gilt - 30Y Govt                                      | 3.14             | 0.07         | -0.25 | -0.77  | -1.04  | -1.08  | -0.23  | 0.72   |
| Gilt - 10Y Govt                                      | 2.32             | 0.18         | -0.12 | -0.29  | -1.08  | -0.90  | -0.62  | 0.99   |
| Gilt - 5Y Govt                                       | 1.13             | 0.07         | -0.14 | -0.12  | -1.07  | -0.79  | -0.59  | 0.32   |
| Gilt - 2Y Govt                                       | 0.47             | -0.01        | -0.06 | -0.16  | -0.62  | -0.43  | -0.21  | 0.28   |
| JGB 30Y Govt   | 1.99             | 0.07         | 0.00  | -0.01  | 0.00   | -0.11  | -0.28  | 0.53   |
| JGB 10Y Govt   | 1.07             | 0.10         | 0.02  | 0.04   | -0.05  | -0.13  | -0.17  | 0.12   |
| JGB 2Y Govt  | 0.38             | 0.06         | -0.01 | 0.04   | -0.02  | -0.07  | -0.07  | -0.24  |
| <b>Global Currency &amp; Commodity Levels Change</b> |                  |              |       |        |        |        |        |        |
| AUD/US   | 1.0275           | 0.06         | -0.03 | -0.04  | 0.01   | 0.07   | 0.12   | 0.19   |
| EUR/US   | 1.3441           | 0.01         | -0.04 | -0.09  | 0.01   | 0.05   | -0.09  | 0.03   |
| GBP/US   | 1.5694           | 0.02         | -0.04 | -0.06  | 0.01   | 0.01   | -0.06  | 0.15   |
| JPY/US   | 77.50            | 0.19         | -0.70 | 0.91   | -3.65  | -6.17  | -11.75 | 2.30   |
| NZD/AUD  | 1.3180           | 0.01         | 0.01  | 0.06   | 0.01   | 0.03   | 0.07   | 0.03   |
| Gold (Spot)  | 1745.10          | 52.66        | 31.85 | -78.20 | 325.65 | 360.65 | 323.75 | 217.50 |
| WTI Crude  | 100.36           | 4.20         | 7.17  | 11.55  | 8.98   | 16.24  | 11.99  | 34.79  |
| GSI Commodity Index                                  | 4990.43          | 3.09         | 1.42  | -2.24  | 0.95   | 10.44  | 9.03   | 13.48  |
| Volatility Index (VIX), Close, USD                   | 27.80            | -6.18        | -2.16 | -3.82  | 10.05  | 4.26   | -3.93  | -18.32 |

## Strategy

### About The Nab Private View

The NAB Private View reflects the view of NPW strategy and solutions team on different asset classes and investment markets, after taking into account the views and research sourced from a variety of internal and external sources including JANA Investment Advisers, MLC Investment Management, ThreeSixty Research, NAB Wholesale Banking Global Markets Research, Lombard Street Research, leading buy-side fund managers, and sell-side research.

The Asset Allocation recommendations reflect the team's views on the relative attractiveness of the asset class over a 1–3 year holding period. A neutral allocation means hold a neutral strategic allocation to the asset class, single minus or single plus underweight and overweight recommendations are meant to rebalancethe asset class progressively towards the bottom or top of the strategic asset allocation range using cashflows inflows or outflows to the portfolio. A double plus or double minus overweight or underweight recommendation is intended to be rebalanced to the top end or bottom end of the strategic asset allocation range immediately by selling some assets and buying others.

Opportunistic themes are designed to be implemented by clients who hold cash outside their strategic asset allocation portfolios to implement concentrated thematic investment ideas across short, medium, and long-term time horizons.

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