

# Market outlook by asset class

This market outlook is provided by the Investment Solutions team, BT Financial Group.

## Australian shares

We have a positive outlook for the domestic equity market and anticipate the ASX 200 reaching the 4,000 to 4,500 levels during the second half of 2009 and into early next year. We expect the market to drift towards the 3,500 level once monetary authorities begin the process of policy 'normalisation' and then move higher once global economic and earnings growth accelerate.

## International shares

We expect the S&P 500 to reach the 1,000 to 1,100 levels and then drift to around the 750 level during the markets' corrective phase. We are confident that, once global growth gains solid traction, equity markets will move higher. In the near term and on a country-specific basis, we prefer China, emerging Asia and the USA while being neutral on the UK and modestly under-weight Europe and Japan. We would gradually increase allocations towards Japan and Europe later in the year.

## Diversified Property

Our fundamental view of the domestic and global real estate listed property market is that valuations are somewhere close to a bottom. However, the second and third quarters of 2009 are likely to be volatile. The combination of uncertainty about lenders' intentions and a heavy reliance on short-term debt could hold prices down. However, REITs are attractive from a relative distribution yield point of view.

## International bonds

Global fixed income appears more attractive relative to domestic cash or domestic bonds. Quantitative easing measures should place a 'soft' cap on key global bond yields as this measure is designed to keep bond yields low to encourage other market yields to drift lower, making the cost of borrowing attractive to investors and consumers.

## Australian bonds

With very little government or central bank sponsorship and a partially functional credit market, the Australian fixed income market does not look attractive to us in the short to medium term. We expect the 10-year Australian government bond to drift towards the 4.75% to 5.0% level in the near term and then towards 5.5% around mid next year, as the RBA starts to normalise official cash rates.

## Alternative assets

We favour macro and managed futures funds, while being cautious on hedge funds that are subject to industry controls and/or regulation. Funds that employ relative-value strategies (such as credit long/short, equity long/short, fixed income arbitrage, convertible arbitrage or multi strategies with sound risk controls) are more likely to generate alpha relative to most directional strategies, as most asset classes are likely to continue to be extremely volatile in the foreseeable future.



## Commodities

We are positive on commodities. China is at the most commodity-intensive stage of urbanisation and has moved ahead to secure long-term supplies of crucial commodities, either by taking a direct stake in commodity-producing companies or entering into bilateral trade agreements that ensure a steady supply.

## Currencies

We expect both the Australian and New Zealand dollars to fare well under a weak US dollar scenario. It is estimated the Australian dollar's fair value is around 0.8300. We expect the Australian dollar to remain strong against the US dollar, British pound, Euro and Japanese yen. It should target 0.7300 to 0.7500 against the US dollar later this year and possibly move higher during early 2010.