Market Update
February 2012

A Market Update prepared by GWMAS trading as ThreeSixty appears below.

- ***The US Fed expects to keep rates low until 2014***
- ***The US unemployment rate fell to 8.3%***
- ***Australia continues to show mixed data***

JANUARY MARKET PERFORMANCE (table)

Equity Markets – Price Indices	Index	At Close 31/01/2012	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	4325.72	5.22%	-10.81%
Japan	Nikkei	8802.51	4.11%	-14.02%
Hong Kong	Hang Seng	20390.49	10.61%	-13.04%
UK	FTSE 100	5681.61	1.96%	-3.09%
Germany	DAX	6458.91	9.50%	-8.74%
US	Dow Jones	12632.91	3.40%	6.23%
EMU*	Euro 100	2164.27	2.91%	-9.01%
World**	MSCI - Ex Aus (Gross)	868.75	4.21%	-5.20%
Property – Price Index	**Index**	**At Close 31/01/2012**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	807.77	5.37%	-4.75%
Interest Rates		**At Close 31/01/2012**	**At Close 31/12/2011**	**At Close 31/01/2011**
Aust 90 day Bank Bills		4.34%	4.48%	4.92%
Australian 10 year Bonds		3.72%	3.67%	5.51%
US 90 day T Bill		0.06%	0.01%	0.15%
US 10 year Bonds		1.79%	1.88%	3.38%
Currency* **		**At Close 31/01/2012**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	1.06	3.98%	6.54%
British pound	A$/STG	0.67	2.45%	8.24%
Euro	A$/euro	0.81	2.83%	11.45%
Japanese yen	A$/yen	81.01	3.14%	-0.97%
Trade-weighted Index		77.90	2.77%	5.70%

Global economies
In good news for investors, the major global sharemarkets posted relatively strong gains in the first month of the calendar year as economic news helped boost positive investor sentiment.

US Economy
Beginning in the world's largest economy, the Federal Reserve (Fed) and latest unemployment figures highlight that the US economy is gaining momentum, albeit at a sluggish pace.

As widely expected, the Fed kept interest rates at 0.25% at its latest meeting.

Somewhat surprisingly, however, the Fed did extend the period over which rates are expected to be kept "exceptionally low".

For the first time, the Fed released members' forecasts of when they expect the first increase in interest rates to happen.

With little concern for inflation over the next couple of years, the Fed now expects rates to be kept at low levels until at least late 2014. This is approximately 18 months longer than previous statements.
As the Fed has rates at near zero, in recent years the Fed has used less traditional methods to ease policy like quantitative easing (printing money).

The Fed clearly wants to send a signal to the markets that it will keep very easy monetary policy in place until a firm recovery is in place and inflationary pressures start to emerge.

Along with the prospect of additional quantitative easing, should that prove necessary, the Fed is attempting to give the economy an extra boost which they hope will build on recent good momentum.

The Fed's dovish outlook was followed by slightly weaker than expected Gross Domestic Product (GDP) data. Following the release of this information, the expectation of more quantitative easing from the Fed started to build.

Looking ahead, the Fed is expecting modest growth of 2.5% in 2012 and 3.0% in 2013. Unemployment is forecast to fall only gradually and to remain above 7% in 2014.

On the employment front, capping better than expected employment growth was a further unexpected decline in the unemployment rate from 8.5% to 8.3%.

To put this figure into context, the US unemployment rate has fallen from 9.1% this time last year. This announcement helped provide markets with a boost of confidence.

Europe

Moving to Europe, sentiment seemed to improve over the course of January with economic data showing some positive signs.

Towards the end of January and into the early parts of February, in conjunction with US data, markets were higher on the mounting expectations of a positive outcome from the Greek debt negotiations.

While negotiations took longer than anticipated, a deal has been reached between parties for the next tranche of bailout funds with the Greek Parliament recently passing further austerity measures.

The Eurozone Manufacturing Purchasing Managers Index (PMI) saw a rise in January and is now at the highest level since August with the Services PMI also rising.

As seems to be the trend of recent times, Germany led the way with solid Manufacturing and Services PMI's helping the broader Eurozone. Furthermore, German business confidence, as measured by the IFO Business Confidence Index, also rose in January to its highest level since August.

The UK manufacturing PMI also rose with the January reading seeing the index level at an 8-month high.

Positive news from the region also comes from yields at Eurozone government bond auctions.

Yields continue to ease from the rates seen in November and December.

Recently, Spain sold three and six month bills lower than their respective December auctions.

Italy also sold bonds which saw an average yield of 3.76%. This is significantly lower than the 4.85% yield at December's auction.

On the policy front, 25 of the 27 European Union (EU) leaders signed up to a treaty that will include automatic sanctions on countries that breach stricter budget rules.

This is aimed at balancing budgets between members of the EU.

Leaders also agreed to setup the €500bn European Stability Mechanism in July. The agreement is expected to lead to a formal pact by March.

While these measures show steps have been taken to address Europe's issues, there was sobering news with the World Bank lowering its forecasts for the world economy and is now expecting a recession in Europe this year.

The World Bank expects the Eurozone GDP to decline by 0.3% in 2012 which is more in line with the market consensus.

The World Bank also cut their forecast for world GDP from 3.6% to 2.5%.

China

In China, data released in January shows that the Chinese economy grew at a slightly stronger than expected pace in the December quarter.

While this is a positive result, it's also important to highlight that growth has slowed over the year to 8.9% which is the slowest pace in over two years.

In the near term, it's generally expected that a slowing Chinese economy will exhibit a soft landing. As a result, the country's central bank, the People's Bank of China, is expected to ease monetary policy to encourage growth.

It's fair to say China has more options available to spur growth in the economy comparative to other parts of the globe, however, it too has risks if policy is not implemented appropriately.

Excessive growth in the money supply over recent years could lead to resurgence in inflationary pressures and constrain the response of policy makers.

Furthermore, risks stemming from the high local government debt and deflating property prices can lead to ramifications for the banking sector.

Australia
On the domestic front, data released in January showed Australia's inflation, as measured by the Consumer Price Index (CPI), was unchanged in the December quarter, with annual inflation at 3.1%.

This contrasts to the relatively flat retail sales reports for December.

At the first meeting for calendar year 2012, the RBA left rates unchanged at 4.25% in the early part of February citing data showing improvement in the US and European concerns abating over recent months as policymakers attempt to address the regions issues.

In other economic news, the ANZ Job Ads survey for January was positive as it showed a rise of 6%. This is the largest monthly gain since February 2010 when labour demand was back into recovery mode after the worst of the GFC.

Big movers this month

Going up – Materials +10.3%
Going down – Info Tech -3.0%

Equity markets
Equity markets, as measured by the major indices, were stronger across all regions with Hong Kong's Hang Seng and the German DAX the standout performers.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	-6.51%	11.31%	-1.78%	4.93%
	S&P/ASX 50 Acc.	-5.26%	10.95%	-0.97%	5.44%
	S&P/ASX Small Ordinaries Acc.	-13.46%	16.48%	-4.11%	3.45%

In Australia, the All Ordinaries Index jumped in the first few trading days of the calendar year to close the month over 5% higher. While trade has been volatile, this takes Australian equities around 9% higher from the lows seen in late September last year.

On the sector level, Materials and Energy were by far the best performing sectors as sentiment improved. Info Tech continued to struggle and was the worst performing sector over one month, three months and one year periods.

Sector	1 Mth	3 Mths	1 Yr
Energy	8.4%	-1.6%	-13.0%
Materials	10.3%	-0.8%	-13.6%
Industrial	6.3%	5.7%	-2.1%
Consumer Discretionary	4.4%	-3.3%	-14.1%
Consumer Staples	0.8%	-2.5%	-2.0%
Health Care	-1.0%	2.5%	-10.5%
Financials	2.9%	-1.5%	-4.6%
Info Tech	-3.0%	-4.0%	-24.1%
Telcos	0.3%	7.4%	28.4%
Utilities	2.5%	7.7%	14.3%
Property	5.4%	5.4%	1.4%

Global equities

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	-9.08%	-2.26%	-7.86%	-1.47%
	MSCI World Index Hedged ($A)	-2.45%	13.91%	-3.58%	2.08%
	MSCI World Small Cap ($A)	-9.07%	4.83%	-5.70%	0.60%
Emerging	MSCI Emerging Mkts Free	-12.41%	7.23%	-1.57%	7.09%
	MSCI AC Far East Free (ex Japan)	-12.70%	6.24%	-1.16%	5.69%

Kicking off in the US, the Dow Jones gained over the month but underperformed other global majors despite the recent, relatively good, economic data. However, over a 12 month period, the Dow Jones continues to be the best performer of the major indices and the only major to provide positive returns.

European markets were mixed over January with the German DAX providing investors strong returns to be among the best performing markets over the month.

Despite providing positive returns, the UK underperformed other major markets in January. However over the year to 31 January 2012, the UK performed relatively well and by far outperformed the German DAX and the MSCI World Index.

In Asia, Hong Kong's Hang Seng continues to exhibit large swings and was the best performing major index over January. Interestingly, for some time, the Hang Seng was the worst performing major measured over a 12 month period, however, recent positive returns has seen Japan's Nikkei become the worst performing index measured over a 12 month period.

Property

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	1.36%	7.69%	-14.70%	-5.09%
Global	UBS Global Investors Index	-2.81%	6.43%	-11.23%	N/A

The S&P/ASX 300 A-REIT Accumulation Index performed well in January and outperformed its global counterpart, as measured by the UBS Global Investors Index, which returned 5.4% and 3.0% respectively.

Over the most part of 2011, global property performed better over one, three and five year periods. However, recent positive performance by Australian listed property has resulted in better returns to investors over one and three year periods.

Over the longer five year period, global property continues to significantly outperform domestic listed property.

Fixed interest

	Index/Benchmark	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	10.51%	5.86%	7.33%	6.56%
	Australian 90 Day Bank Bill	4.80%	4.34%	5.28%	5.44%
Global	BarCap Global Aggregate Index	0.58%	-9.15%	0.47%	1.41%
	BarCap Global Ag,. Index Hedged	11.89%	9.98%	9.01%	7.58%

Australian bonds, as measured by the UBS Composite Bond All Maturities Index, were relatively flat over January, returning 0.14%, as risk assets such as shares performed well. Over longer periods, Australian bonds have continued to perform relatively well.

The strengthening of the Australian Dollar over January had a significant impact on global bonds. Global bonds that were hedged to reduce the impact of movements in currency, as measured by the BarCap Global Aggregate (Hedged), gained 1.3% with its unhedged counterpart returning -1.9%. Over the longer term, hedged global bonds have significantly outperformed their unhedged counterparts.

Australian dollar (AUD)
The AUD has been a beneficiary of the rise in metal prices over the course of January. Furthermore, the suggestion of more liquidity from the US Fed has helped push the AUD/USD to levels not seen since October 2011.

The market now expects the Fed to increase money supply encouraging growth, which in turn adds to sentiment, boosting equity markets and weakening the USD as seen following the second round of quantitative easing (QE2) in late 2010.