

Where to for investment markets?

Hamish Trumbull, Investment Research Manager



Agenda



Recent returns

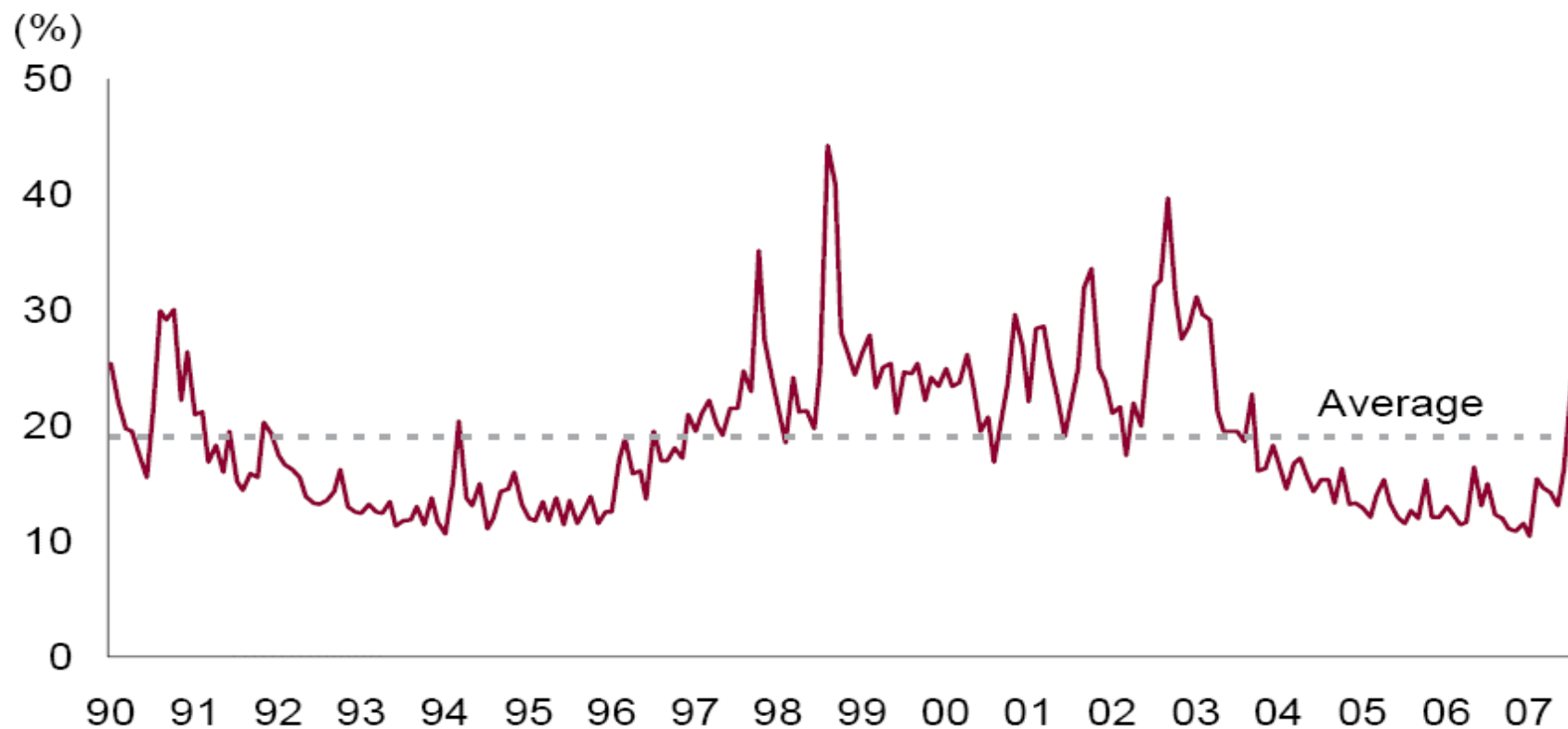
Economic update

Implications and opportunities

The return of volatility



CBOE Market Volatility Index*



Through August 17, 2007

*A measure of expectations of US market volatility over the next 30 days, implied by the pricing of options on the S&P 500 futures contract

Source: Chicago Board Options Exchange and AllianceBernstein

Returns – as at end November 2007



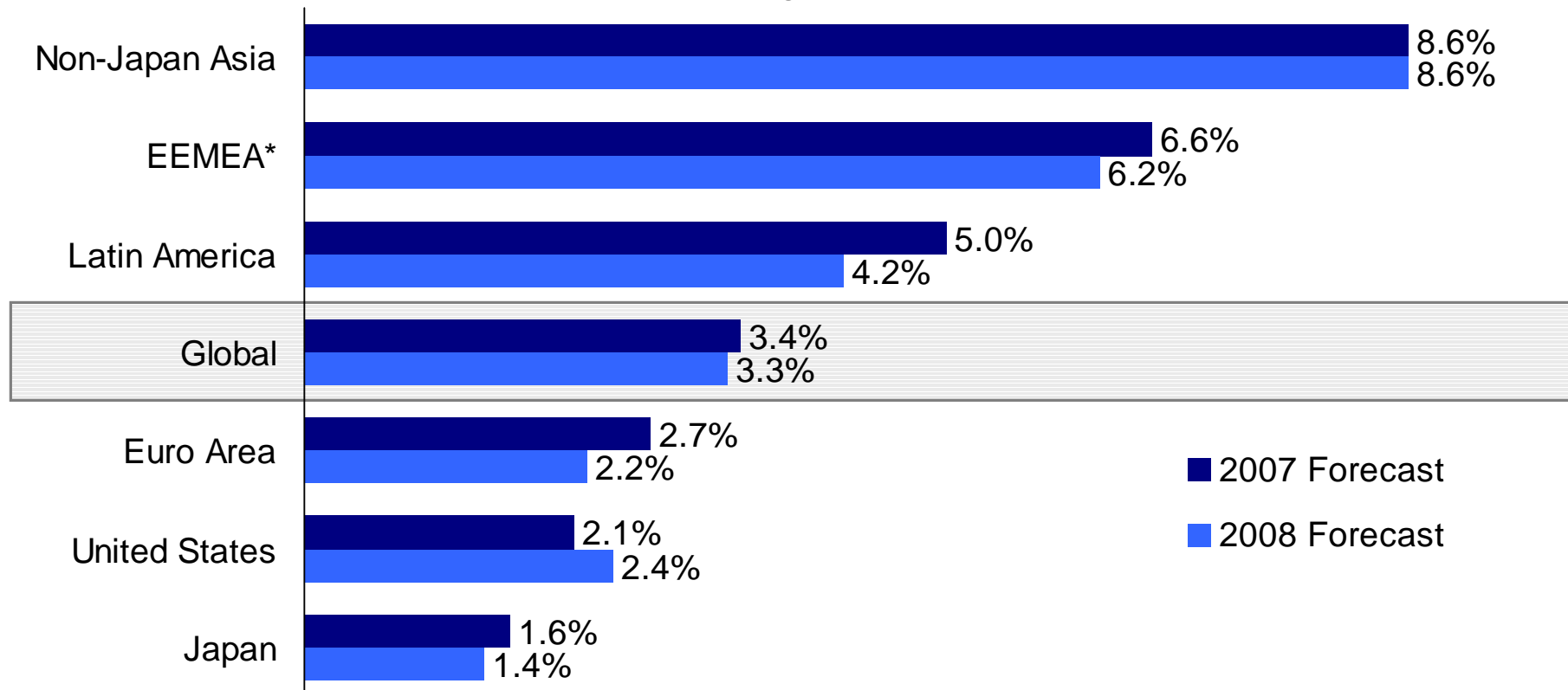
	12 months
Cash	6.7%
Australian Fixed Interest	3.3%
Australian Shares	23.8%
Listed Property	5.2%
International Shares (Unhedged)	0.6%
International Shares (Hedged)	10.7%
International Fixed Interest (Hedged)	5.9%

Global Outlook

Global economic growth outlook



(Percent Average Annual Rate)



Current forecasts do not guarantee future results

Data as of 12 November 2007

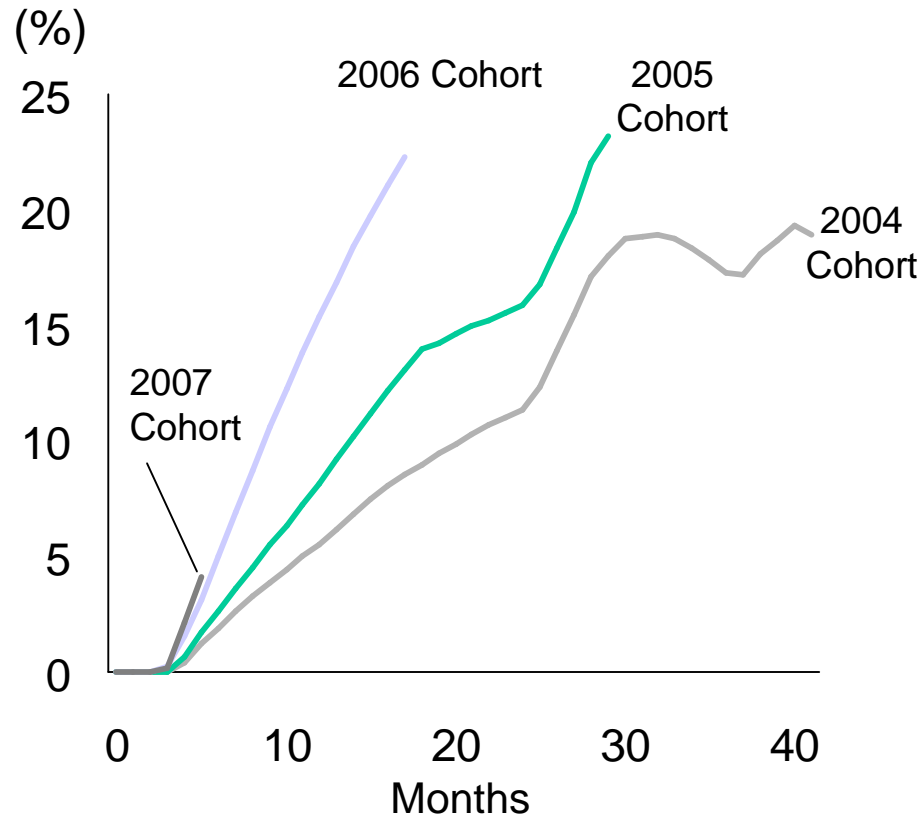
*Eastern Europe, Middle East and Africa

Source: AllianceBernstein

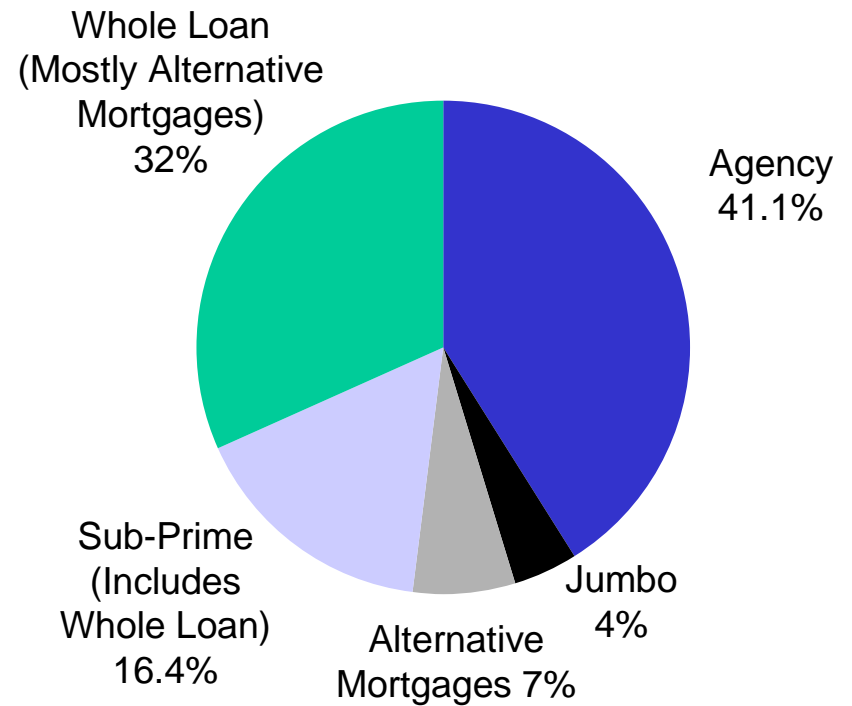
US mortgage delinquencies capture headlines



US subprime delinquencies



US mortgage market share by sector Total market \$8.5 Trillion

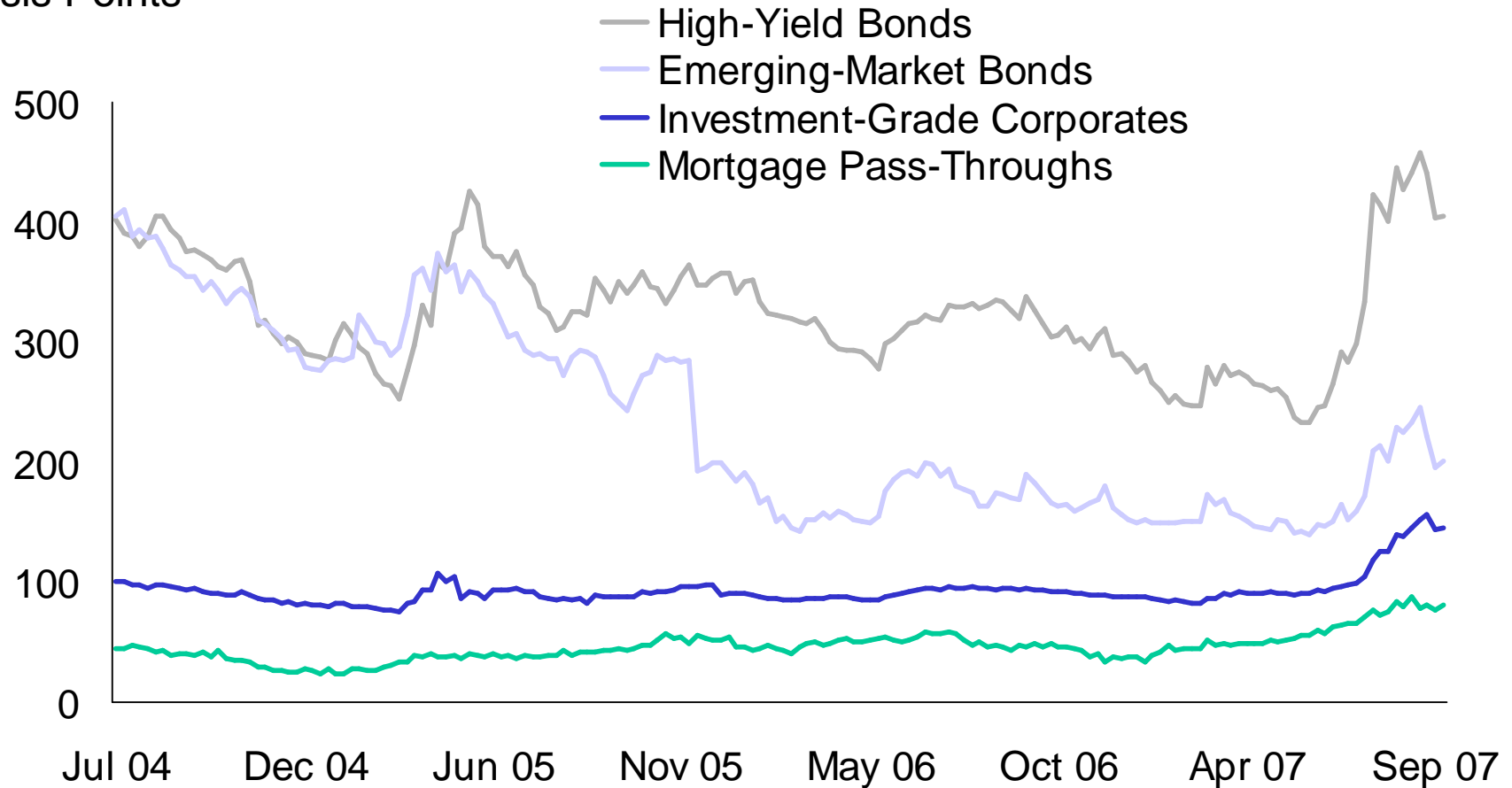


Historical analysis does not guarantee future results
 Serious delinquencies of 60 days or more
 Data as of 31 May 2007
 Source: Bank of America, Loan Performance, Credit Suisse and AllianceBernstein

Credit spreads widen in reaction to subprime

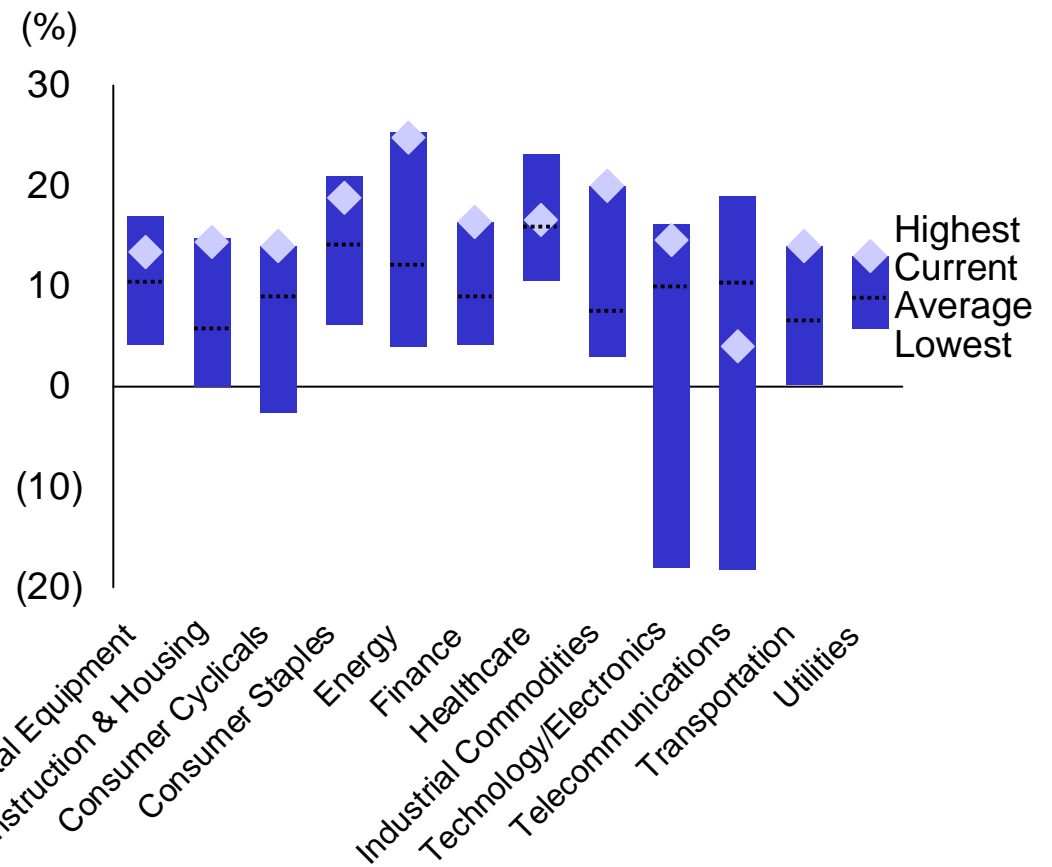
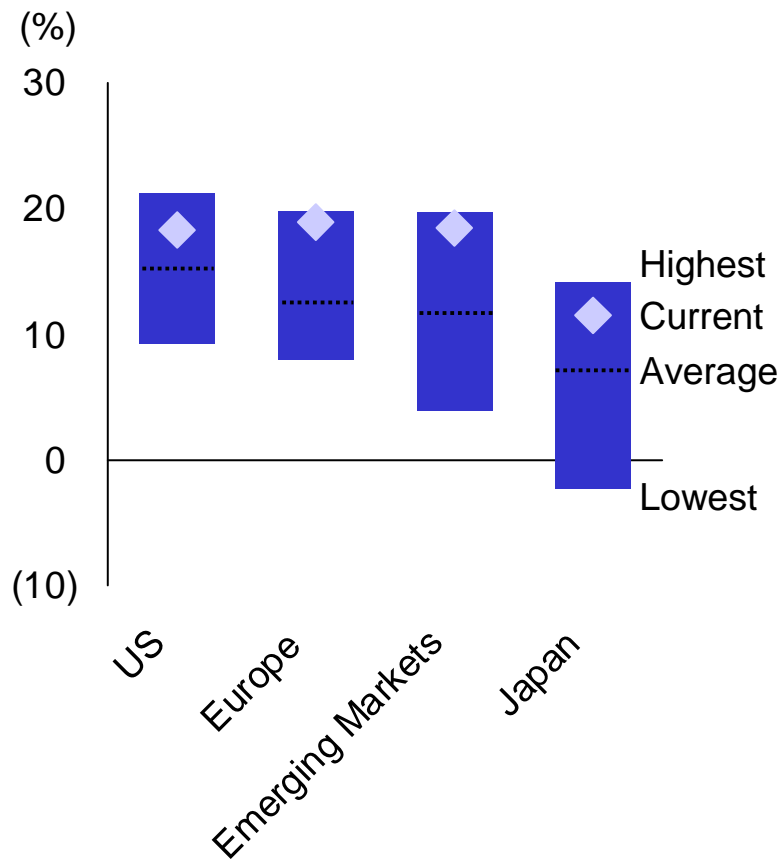


Basis Points



Historical analysis does not guarantee future results.
Individuals cannot invest directly in an index. All indexes are unmanaged.
Through 30 September 2007
High Yield Bonds: Lehman US Corporate High Yield; Emerging Markets Bonds: JP Morgan
Source: Lehman Brothers & JP Morgan Emerging Markets

Strong return on equity by region and sector

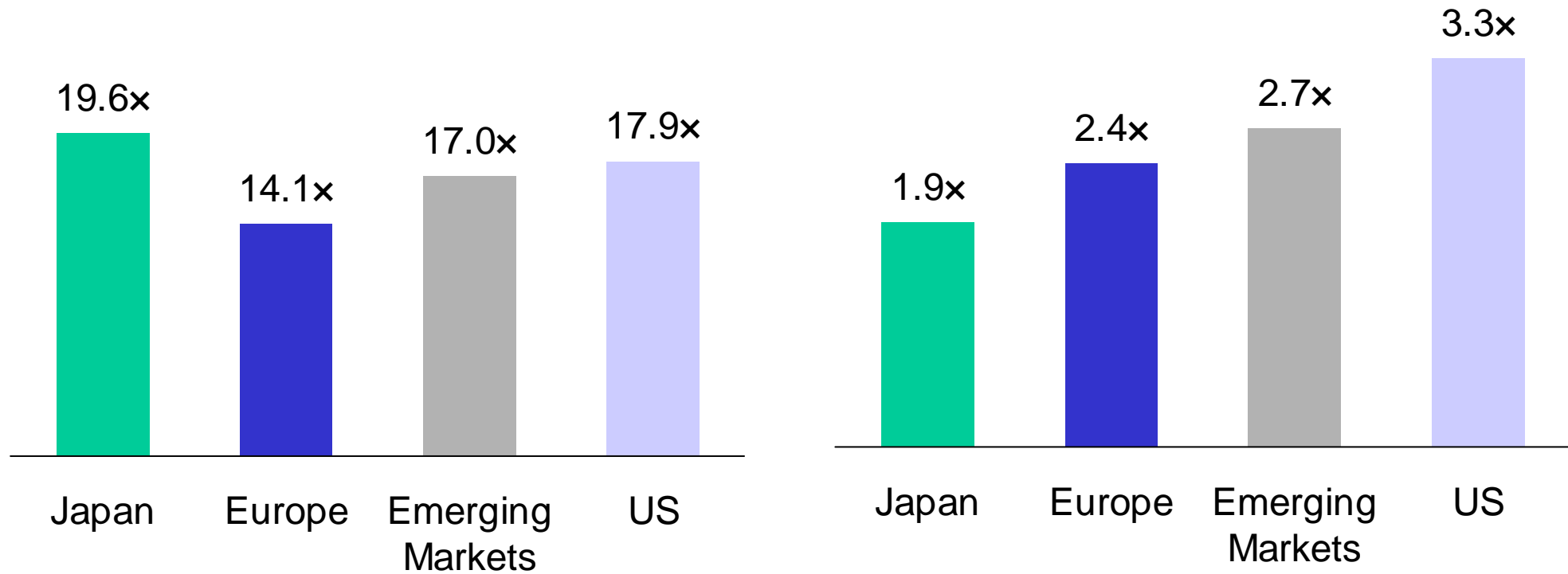


Past performance does not guarantee future results.

Based on trailing 12-month ROE. Regional numbers are from 1976 through March 2007, except emerging markets which is September 1996 through March 2007. Sector numbers are for a global developed markets large-cap universe from December 1972 through February 2007.

Source: Compustat, FactSet, MSCI, Worldscope and Bernstein

Global equity markets still reasonable



Current valuations do not guarantee future results.

As of 25 September 2007

The unmanaged Standard & Poor's (S&P) 500 Stock Index includes 500 US stocks and is a common measure of the performance of the overall US stock market.

JAP: MSCI Japan; EUR: MSCI Europe; EM: MSCI Emerging Markets

Source: MSCI, FactSet and Standard & Poor's

Global economy - summary

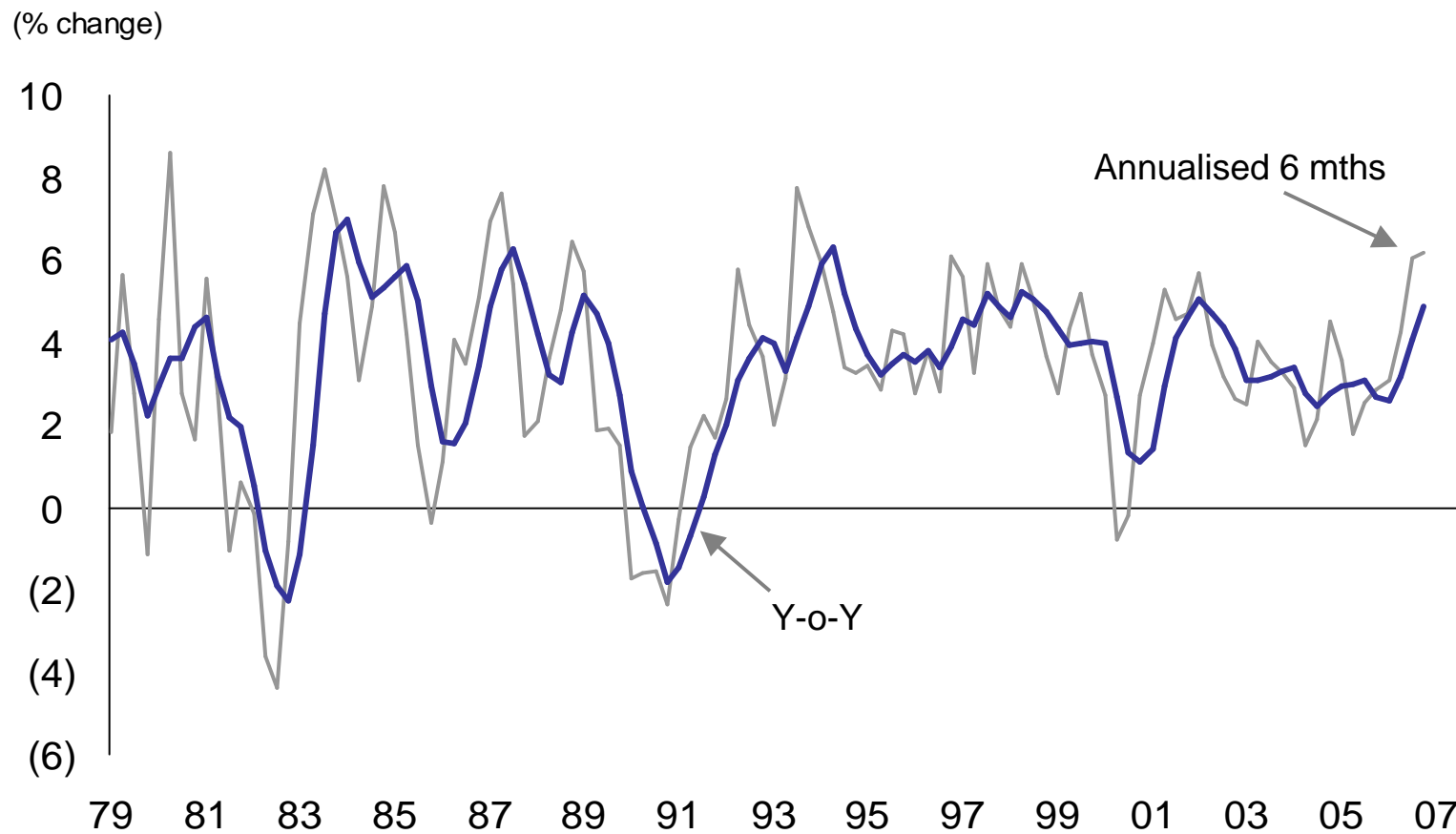


- Headlines have been about subprime but the impact on credit markets has been broader and deeper.
- The Fed is working with other central banks, Treasury and financial institutions to ensure the stability of the financial system.
- They are well aware of the risks – \$415 trillion in derivatives exposure up six-fold since 1998 (source: Bridgewater Associates).
- US and Japan have been the laggards. Fortunately Asia (Ex-Japan), Eastern Europe, Latin America have been strong.
- The question to ask is whether developing economies growth rates can hold up if the US deteriorates further.



Australian Outlook

Australian Growth: strong first half

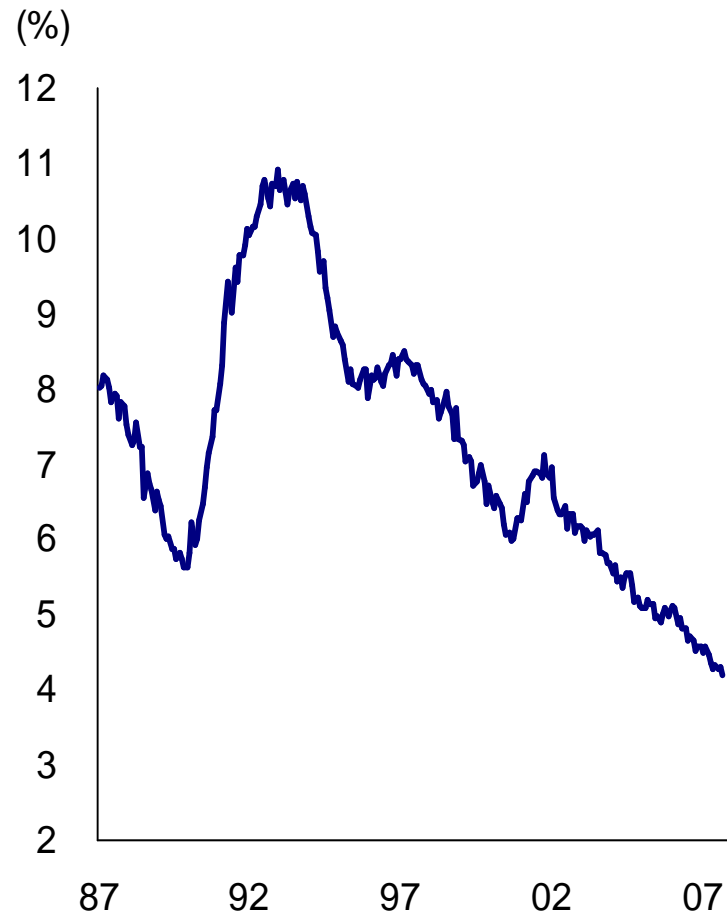


Source: Datastream, Australian Bureau of Statistics, Australian GDP figures through Q2 2007

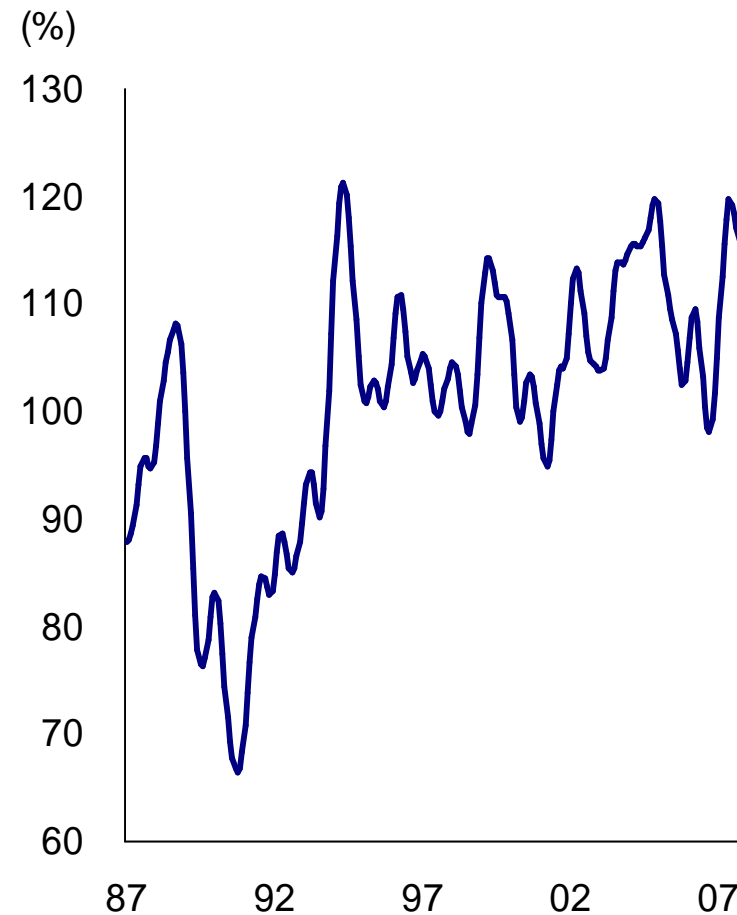
Australian Growth – continued strength



Unemployment rate

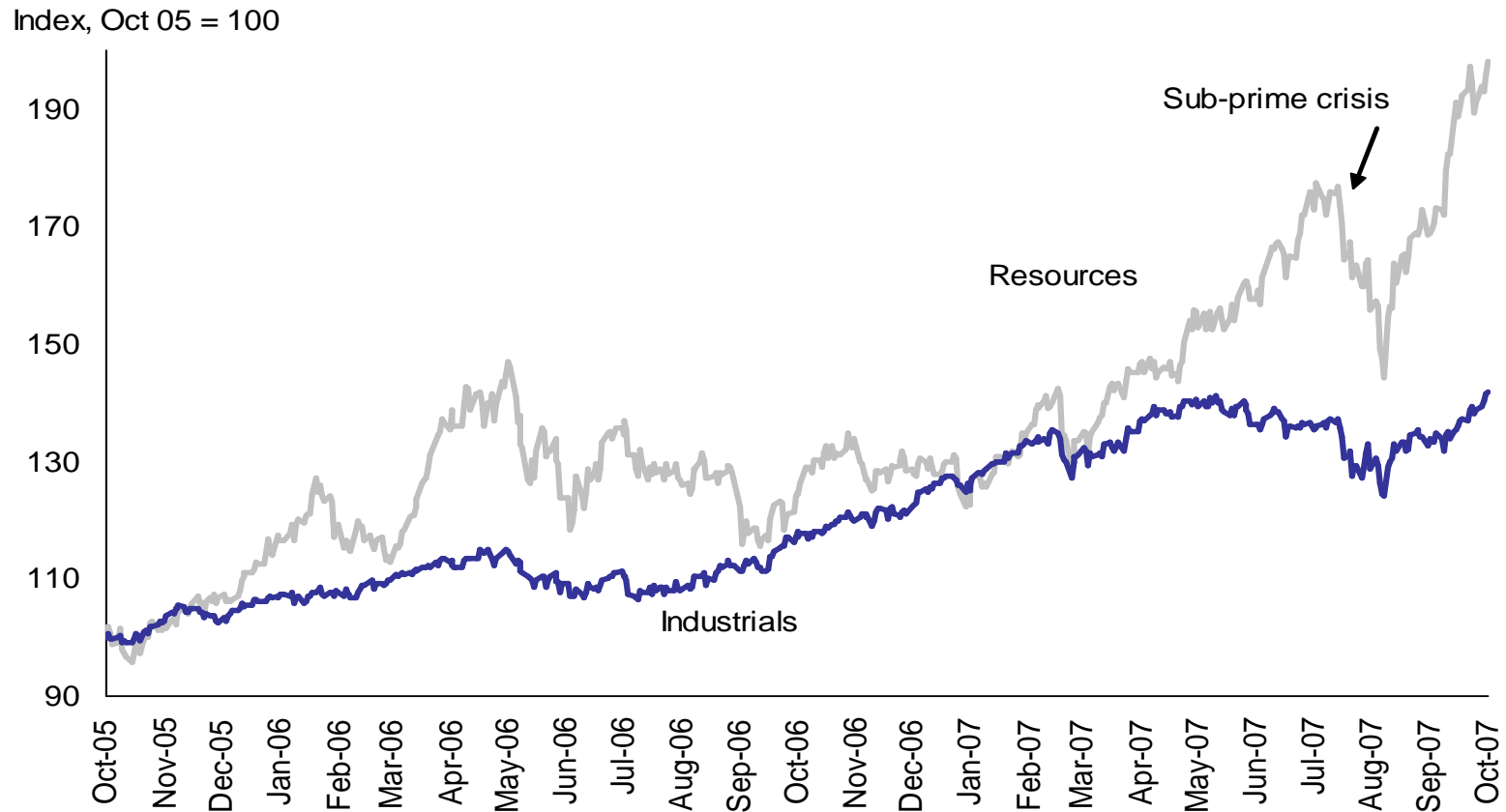


Consumer sentiment



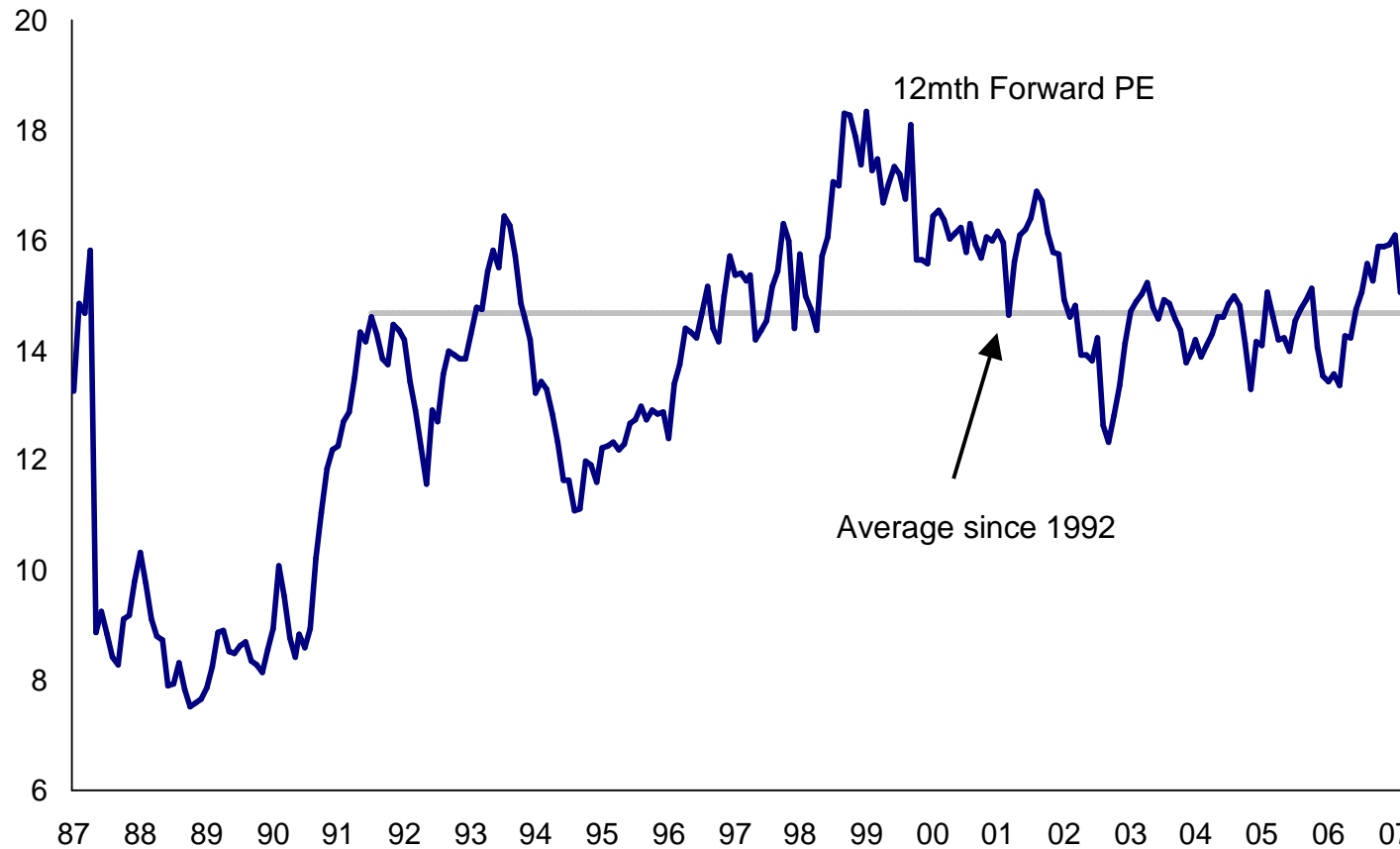
Source: Australian Bureau of Statistics, Westpac

Australian Equity Market: Where's the crisis?



Source: Datastream, through 11 October 2007

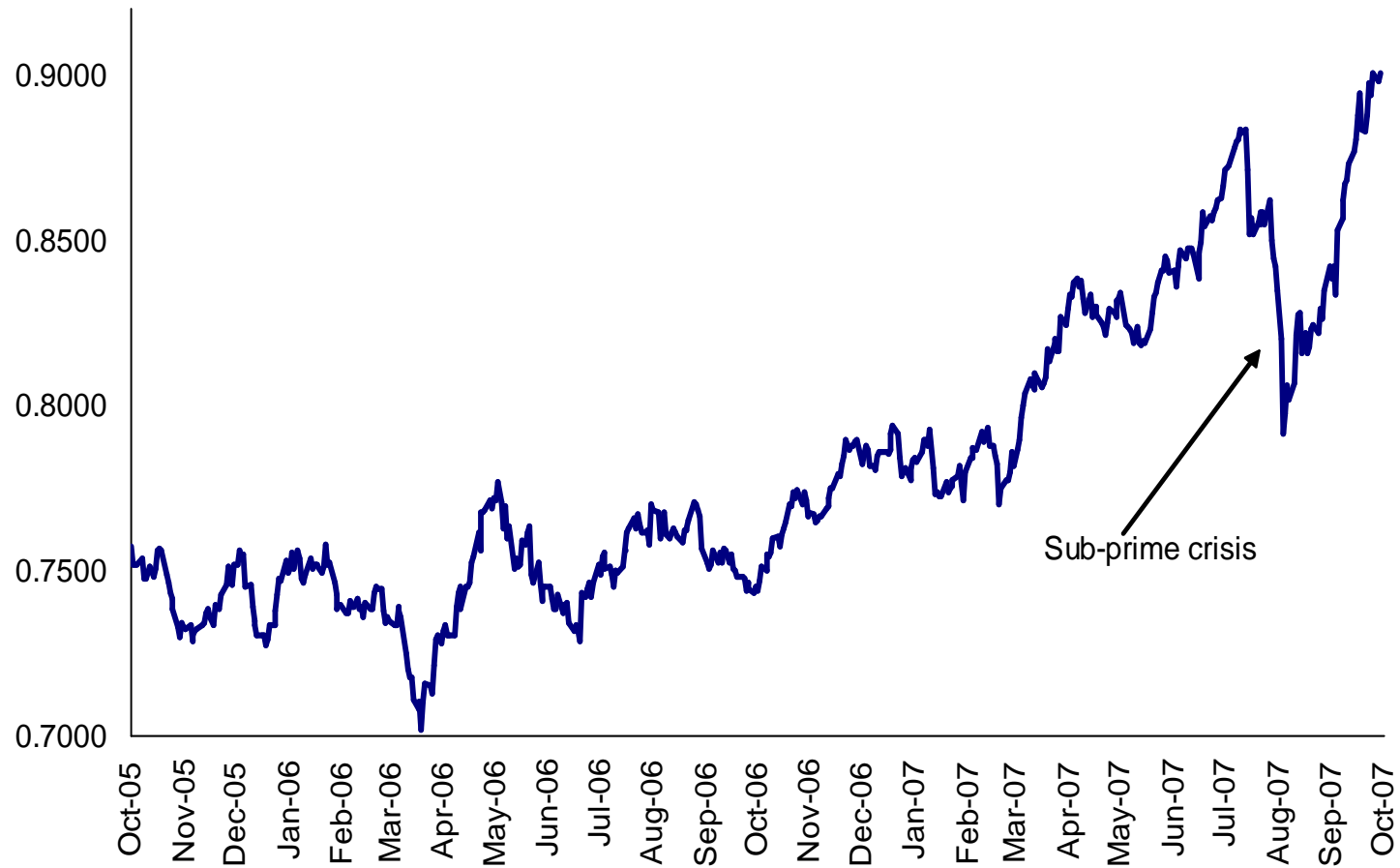
Forward PE of Australian Market



Past performance and current estimates is not indicative of future results.

Source: ABNAMro, through September 2007; AllianceBernstein estimate as at 12 October 2007

Australian Dollar: Where's the crisis?



Source: Datastream, through 11 October 2007

Australian economy



- Financial markets have been disinterested in the election outcome in terms of asset pricing (global factors are the focus)
- Domestic economy continues to be driven by commodity prices, vibrant business sector and (relatively) healthy consumers.
- But higher mortgage rates, increasing rents and higher commodity prices may start to bite. Drought has also been a negative.
- The RBA has expressed some concerns over mounting inflation pressures, but now also concerned about credit markets.
- Things look fine for the time being with consumers and businesses in good shape. Let's hope the commodities boom continues.

Implications and opportunities



- Plenty of negative sentiment. Normally a time to get bullish, but share prices have not fallen far. Valuations look OK, not cheap.
- Dislocation remains in credit markets. Some opportunities are beginning to appear after years of tight (unattractive) credit spreads.
- US Fed faces difficult choice between major slowdown or throwing more fuel on the fire (rate cuts) at risk to US dollar and bonds.
- Banks are scrambling for cash. Some very keen offers from well rated banks - Macquarie Bank Term Deposit at 7.7%.

Summary



Market recovery has been impressive - but not 'out of the woods' yet

Fortunately, growth still robust (despite renewed volatility)

- Market expecting further US rate cuts
- Growth in developing economies remains critical
- Valuations look OK, but we must be realistic about future returns.

Inflation risks are back on the radar