

The market fell overnight: what does this mean for your investment?

Overnight figures showed the Dow Jones, Nasdaq, FTSE 100 all fell by around two to three percent and today the Australian market is lower. What's causing the volatility, what can we expect from here and what does this mean for the Australian market?

The short cut

- Global markets fell around two to three percent overnight
- Falls are part of the market returning to expected levels after a strong period of growth
- Australian market is likely to be affected but not significantly
- Longer term expectation for Australia is the ASX200 to continue to grow to 5000 by end of year

The last time we wrote about market performance, we were rounding out a pretty good year for super investors. The 2009/2010 financial year could have been a great year, but the strong performance of the first six months was watered down by a return of market volatility in the final few months of the year.

Since then, global markets have experienced periods of slow but steady growth countered by short periods of volatility. The results from overnight are a perfect example of this, with many of the major markets falling around two to three percent.

What's causing the volatility?

The US had an exceptionally good reporting season for the June 2010 quarter, with the majority of companies that make up the S&P 500 Index recording results well ahead of expectations. US gross domestic product – or the sum total of everything produced in the US – also improved.

The market interpreted this news as evidence that the US economy is improving at a stronger rate than initially expected. In recent days, this view has been countered by a number of points.

GDP has risen, but it's more to do with inventory rebuilding than a significant increase in demand. In short, US producers have been restocking the shelves but the US consumer hasn't been consuming at the levels previously expected.

New US trade figures however showed the US import levels were higher than export levels mainly thanks to consumer spending – so even if the US consumer *is* consuming, they're buying more imports than domestically-produced goods and services.

This means second quarter GDP figures for the US will be revised downwards. In other words, the sum total of everything produced in the US over the second quarter of the year is likely to be lower than first expected, and it's that headline news that has played a big part in the overnight market downturn.

Patrick Farrell, Head of Advance Investment Solutions, sees the current market movements as a recalibration of growth, rather than a downturn. “The markets have gone through a recent period of solid gains supported by the bottom-up earnings numbers.

“The overnight weakness is more about the market hoping for better than expected economic numbers, particularly out of the US and China, to reinforce the recent positive momentum. Unfortunately, the numbers just failed to excite”.

The other contributing factor is the role the US Federal Reserve can play in stimulating the economy. The US Federal Reserve has already reached the limits of normal monetary policy and has been resorting to ‘Quantitative Easing’ (QE), or printing money to try to stimulate the economy further.

Before this week’s announcement, the market believed the US economy was on a stronger growth path. The announcement of more quantitative easing by the US Federal Reserve has countered this view.

The BT view

In today’s markets podcast, BT Chief Economist Chris Caton suggests the overnight activity will have minimal impact on the Australian market as some of the falls have already been built into the local market. You can listen to the podcast [here](#).

{<http://www.bt.com.au/bt-market-insights/bt-latest-updates/bt-weekly-markets-review.asp> }

Patrick Farrell, Head of Advance Investment Solutions agrees, suggesting you shouldn’t read too much into the overnight results if you’ve set your sights on the longer-term.

“Volatility is a consistent feature in markets and we still have a way to go before we reach smoother market trends. But if you look at the underlying figures, there is a lot of substance in the market. Take a top down view and you’ll see a lot of volatility. Take a bottom up view, and you’ll see a more solid base for market growth”.

Over the longer term, both Chris Caton and Patrick Farrell are positive about the prospects of the Australian market, expecting the Australian market to climb to around 4800 by the end of September and push on to above 5000 by the end of the year.

The BT Investment Management view is bonds should also perform well in this environment of heightened market volatility and are a diversifying asset.

As always, we recommend talking to your financial adviser about your long term investment goals, and taking a step back from the day-to-day fluctuations of investing.

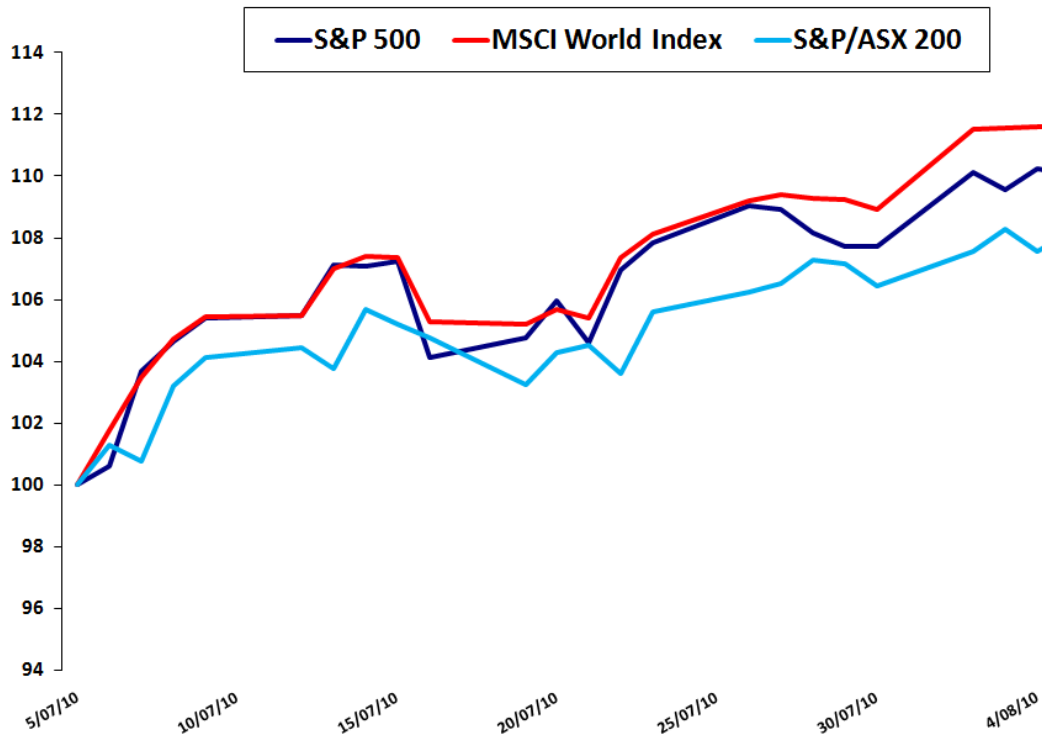
Want to know more?

Listen to Chris Caton’s daily markets podcast at

<http://www.bt.com.au/bt-market-insights/bt-latest-updates/bt-weekly-markets-review.asp>

Overnight market activity

Dow Jones	10378.83	-265.42	-2.49%
Nasdaq	2208.63	-68.54	-3.01%
FTSE 100	5245.21	-131.20	-2.44%
Dax	6154.07	-132.18	-2.10%



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