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# Market Volatility Update

11 November 2011

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With the European debt issues continuing to put pressure on global and domestic sharemarkets, here are answers to some questions you may have.

## What's happening with Italy?

Italy's current problems stem from their government's inability to manage the size of their debt. And there is little faith in the Prime Minister, Silvio Berlusconi, to push through much needed reforms and rein in government spending.

Now we're seeing a clearing of the decks, so to speak, with Berlusconi offering his resignation. When it takes effect and who will replace him is still unclear though.

## Why is this causing sharemarkets to be volatile?

The uncertainty has caused markets to demand the Italian government pay much higher interest rates on their borrowings. The flow on effect is worrying markets because Italy is the 3rd largest debt market in the world.

## With Italy, are we seeing the same problems as Greece?

While both situations are a result of government mismanagement, unlike Greece, Italy's debt problem is more of a liquidity issue rather than a solvency issue.

And Greece's economy is much smaller than Italy's. In fact, Greece's economy is smaller than that of New South Wales.

## With all this focus on Europe, what about the US?

It's understandable that most of the focus in the media is on Europe and Italy at the moment, however let's not forget, the two largest economies in the world, the US and China.

In the US we've seen Q3 company reporting just come out and the news isn't all that bad. Companies generally posted better results than the market expected and the economy is looking more promising.

You can't expect much growth from the US for a while though. At these times, we believe careful investment in attractively priced companies is the key to better returns.

## How is China performing?

China, and more broadly Asia, is still growing at a good rate. So far, we haven't seen the drastic slowdown some were predicting. And inflation pressures in China appear to have fallen recently. This is obviously good for the Australian economy.

Our MLC Horizon portfolios have a large exposure to foreign currencies (rather than the Australian dollar) to reduce the risks of a more significant slowdown in China.

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## So it's not all bad news then?

There are some positives in the US and China but the European debt situation is a real problem, and sharemarkets are reacting negatively because of it.

The global economy faces some challenges that will take time to work through. A lot is resting on policy makers. Once markets become more comfortable that the right actions are being taken, you can expect markets to celebrate. But the uncertainty isn't over yet and we think there will be more volatility.

## Finally, what are MLC's managers doing?

High quality, well managed companies with strong balance sheets is the key focus of our share managers. These types of companies tend to hold up better in times of market volatility and position our portfolios well for a recovery in prices.

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