

Australian shares will stand ground against Europe

Only mild dent from latest crisis

By Victoria Tait
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Australian shares are expected to suffer less from European fallout because domestic stocks have underperformed offshore markets.

Australian stocks' underperformance relative to other developed markets will help buffer domestic shares from the latest round of Europe's debt woes, fund managers and economists said.

On Wall Street, the Dow Jones Industrial Average has advanced 12 per cent over the past six months while Australia's benchmark S&P/ASX 200 Index has edged less than 2 per cent higher. Over five years, the gap widens, with the Dow 1.5 per cent firmer and Australia's index down 30 per cent.

"For our market, the underperformance lends itself to being in a stronger position," Prime Value senior investment analyst Fiona Clark said.

Nervous investors have largely quit equities, sending bank cash levels to near 30-year highs, and advisers have said it remained difficult to convince clients to reenter the market.

However, a strong Australian dollar has attracted offshore investors, with government data showing foreign investment levels in domestic shares at a 19-year high.

AMP Capital chief economist Shane Oliver said Australian shares added 7 per cent in the March quarter compared with gains of 11 per cent for global shares.

However, he said the latest Euro zone crisis, which suggests the contagion has spread to Spain and Italy, would have a milder impact on Australian shares.

"Any correction should hopefully be milder, say 5 to 10 per cent rather than the 15 to 20 per cent plunges that followed the April highs of the last two years," Oliver said.

He said shares were cheaper, sovereign bonds were less attractive as safe haven investments, global monetary conditions had eased and the risk of a Euro-zone banking meltdown had faded.

"For these reasons we also still see share markets as being higher by year end, so would see any weakness in coming months as providing attractive entry points," Oliver said.

Platypus Asset Management founder Don Williams said Australia's economy was solid but it was important not to underplay Europe's debt crisis.

"Europe's sovereign debt issues aren't going to go away," Williams said.

"They'll probably still be with us in five years time but the fundamentals in Australia are compared to other OECD economies are very strong," he said of the Organisation for Economic Cooperation and Development.