

Global Overview

Equity markets retreat

Most equity markets finished the week lower, as investors fear the markets are being overly optimistic of a sustained rebound in corporate earnings.

US payroll data

The pace of job losses in the US slowed in August, when employers cut 216,000 jobs. This compares with 276,000 cuts in July. While this was better-than-expected, markets were surprised by the jump in the unemployment rate to a high of 9.7%.

ECB meeting

The ECB held interest rates unchanged at the record low of 1% when it met last week. ECB President, Jean-Claude Trichet, gave markets a boost when he said that "the bank won't necessarily raise interest rates when the time comes for it to start withdrawing other emergency stimulus measures".

International Monetary Fund

In a document prepared for the G-20, it was revealed that the IMF has raised its forecast for global growth to 2.9% for 2010. It was still expecting a 1.3% contraction this year, but there was a concern that central banks had to start removing some liquidity from the markets before it spurs inflation.

Commodities

Most commodities fell last week, with oil finishing the week over 6% lower, despite further signs that the global economy is emerging from its slowdown. There was a reduction in US crude oil supplies, but investors feel that the current stockpiles are sufficient to meet demand in the world's biggest energy-consuming country.

| | Index | Year to Date Return 31.12.08 to 04.09.09 | | 1 Week Return 28.08.09 to 04.09.09 | |
|-----------|--------------------------------------|---|-----------|---------------------------------------|-----------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S&P 500 | 12.5 | 9.7 | -1.2 | -1.1 |
| US | NASDAQ | 28.0 | 24.8 | -0.5 | -0.3 |
| Europe | FT/S&P Europe Ex. U.K. | 16.0 | 16.0 | -2.3 | -2.3 |
| Ireland | ISEQ | 29.7 | 29.7 | -2.5 | -2.5 |
| UK | FTSE 100 | 9.4 | 20.0 | -1.2 | -0.4 |
| Japan | Topix | 8.9 | 3.7 | -3.5 | -2.7 |
| Hong Kong | Hang Seng | 41.2 | 37.7 | 1.1 | 1.2 |
| Australia | S&P/ASX 200 | 19.2 | 40.5 | -1.2 | 0.2 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 3.2 | 3.2 | -0.4 | -0.4 |

Global Equities



United States

Overview

US markets rallied on Friday following the payroll data, paring some of the week's losses. Investors fear that earnings may not be strong enough to justify the recent advances.

Banks – It was a tough week for both Morgan Stanley and AIG's share prices, dropping by 6% and 20% respectively. Bank of America cut its rating for Morgan Stanley, following an 84% rally so far this year, while AIG fell after Bernstein & Co recommended selling the companies shares.

Exxon Mobil – With the price of oil falling by 6% amidst comments from China that it would implement stricter capital rules for banks, to cool the rate of growth, Exxon Mobil saw its shares lose over 2% on the week.



Europe

Overview

European markets finished the week lower, as investors feared that the recent rally may have outpaced the prospects for earnings and economic growth, just like in the US.

Alcatel-Lucent – The world's largest supplier of fixed-line phone networks slid 8% over the week. This followed its announcement that it is to sell €1bn of convertible bonds, and use all or part of the proceeds to restructure its debt.



Ireland

Overview

The Irish market declined as some of the largest companies fell heavily over the week. Some of these included AIB and Bank of Ireland, following profit-taking after the previous week's strong advance, along with McInerney and Independent News & Media.

McInerney – The homebuilder slashed the value of its development landbank in Ireland by 52% since the middle of 2008, and warned that there was no recovery in sight for the homes market here. Its shares finished the week 18% lower.



Asia Pacific

Overview

Most Asian markets remained volatile and fell for the third time in five weeks, as the US employment rate hit a 26-year high, while a stronger yen hit Japanese exporters of autos and electronics. Toyota and Canon both finished the week lower.

Bonds

The ECB left rates unchanged when it met last week, in order to continue to aid the economic recovery which is currently in its early stages. It also said that it would only scale back its emergency lending to banks when credit begins to flow normally through the system and inflation risks start to emerge. The Merrill Lynch over 5 year government bond index fell by 0.4%.

Global Outlook

- Economic data has improved after being in freefall earlier this year and GDP forecasts are currently being revised higher; indeed France, Germany and Japan have all recorded positive growth in the last quarter. The strains within the financial system have eased considerably although outside of China, bank lending is still restricted and this remains a concern for policymakers.
- Much of the improvement can be attributed to the unprecedented scale and scope of policy initiatives to rescue the banking system and offset the collapse in private sector demand. The ultimate success of these efforts (or their unintended consequences) is still far from certain, given the size of the global crisis that they are seeking to redress.
- Short rates have likely reached their cyclical lows in the major economies, at somewhere between 0% and 1%. The major central banks continue to walk a fine line between committing to keep rates sufficiently low to ensure recovery, but at the same time they want to exit from the current emergency policy settings as soon as conditions permit. Investors' expectations regarding how soon short rates will be increased are still being scaled back. Rates are expected to remain very low for some time to come.
- Inflation data in most of the major economies remains supportive to bonds, and the latter have behaved reasonably well considering the strong performance of equities. In the background however is the exit from emergency policy settings, which is unlikely to leave bond markets unaffected. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively, but have recently begun to edge back out somewhat.
- Global equity markets have only recently made an interim high, although the upward momentum is not as strong as before. China's equity market surge had been a positive for sentiment, but its bubble-like behaviour has become a concern. It is noteworthy also that final demand in Europe and the US remains weak and that many of the earnings from those regions (outside of financials) have been boosted by cost control. Market sentiment suggests a continued phase of consolidation in the near term, while seasonal concerns could also be a factor in markets over the next few weeks.
- Currently, the funds are neutral to overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology & financials and underweight basics. Geographically, the funds have an underweight position in Ireland and the US, are closer to neutral in the UK, Japan and the Pacific Basin and are overweight in Europe.

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