Weekly
investment news

3rd January 2006

In this, our first investment news bulletin of the new year, we are taking the opportunity to look back at 2005 as a whole. We would also like to wish all of our readers a very happy and prosperous new year.

Global Overview

- Global equity markets experienced another excellent year in 2005 with large gains on most of the major markets. A robust economic backdrop and a low inflation environment provided strong support for equities. There was a sustained and vigorous expansion in the US and the Far East which contributed to better than expected growth in corporate earnings. The economic recovery in Europe was more sedate. However, European stock markets surged ahead due to low interest rates and better valuations. Oil prices were volatile over the year, driven by periodic terrorism fears as well as supply/demand concerns. Prices peaked at over $70 per barrel in August but fell back to $61 by year end. Returns to eurozone investors from US assets were helped by a strong comeback in the US dollar during 2005. The strength was largely driven by the interest rate differential between the US and the eurozone. US equities underperformed all other major markets in local currency terms. The dollar ended the period at $1.18 against the euro.

- Monetary policy attracted much investor attention in 2005. The Federal Reserve moved US interest rates up from historically low levels to 4.25% by the end of the year with numerous 0.25% increases. There was much discussion as the year came to a close as to when the series of interest rate hikes would end. In October, Ben Bernanke was nominated to succeed Alan Greenspan, the long-serving Chairman of the US Federal Reserve. In the UK, rates were maintained at 4.75%, before being cut in August to 4.5% as a result of slowing economic data. Eurozone interest rates rose for the first time in five years in December. The move was expected and European markets continued to out-perform on the back of comments from Jean-Claude Trichet, President of the ECB, in which he indicated that there was no planned series of interest rate hikes.

- Asian markets were the star performers in 2005 with strong economic growth in China and a surprise turnaround in the fortunes of the Japanese economy. The blocking of a move to privatise the Post Office in Japan led to the resignation of Prime Minister Koizumi and the calling of a general election. Reform-minded Mr. Koizumi went on to win the election and this, together with the improving state of the Japanese economy, gave the Japanese stock market a major fillip.

- Eurozone bonds enjoyed a positive year with the Merrill Lynch > 5 Year Index rising by 7.9% over 2005. Bond markets were primarily focused on inflation figures and interest rate expectations. Price inflation remained well behaved, despite soaring oil prices. In the latter part of the year, an interest rate rise from the ECB caused some jitters and information from the ECB confused the market somewhat. Longer-dated bonds continued to be underpinned by moderate inflation and pension fund liability matching.

Market	Index	Year to Date Return 31.12.04 to 31.12.05	
		Local Currency %	Euro %
US	S & P 500	3.0	18.0
US	NASDAQ	1.4	16.1
Europe	FT/S&P Europe Ex. U.K.	24.2	24.2
Ireland	ISEQ	18.8	18.8
UK	FTSE 100	16.7	20.0
Japan	Topix	43.5	42.8
Hong Kong	Hang Seng	4.5	20.1
Australia	S&P/ASX 200	17.6	26.2
Bonds	Merrill Lynch Euro over 5 year Govt.	7.9	7.9

Global Outlook

- Global growth continues to be healthy despite high oil prices and higher global interest rates. Inflation vigilance should remain high among the major central banks during 2006.
- For the Federal Reserve, inflation data is central to its policy of gradually raising rates. Investors now expect US rates to peak at 4.75% in 2006.
- Investors remain on watch for data that may sway the ECB to further rate increases. In the background is still moderate inflation and pension fund liability matching which should continue to offer support to longer - dated bonds.
- Equity markets remain supported by a strong earnings' background and favourable valuations relative to bonds and cash; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight general industrials and financials while underweight some of the defensive areas like utilities and telecoms. Other sectors are broadly neutral. Geographically the funds are underweight Ireland , the UK and US, overweight Europe and Japan and neutral the Pacific Basin.

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