



Global Overview

Profit taking on equity markets

Global equity markets had a difficult week as concerns over rising commodity prices and weakness in the US dollar prompted profit taking on both sides of the Atlantic.

US interest rates rise

The US Federal Reserve met on Wednesday and increased interest rates by 0.25% to 5%. The rise had been anticipated by the market. The accompanying statement indicated that further moves will depend on economic data going forward.

Surging commodity prices

Concerns that rising commodity prices would add to inflationary pressures intensified as gold and silver hit prices not seen in decades.

Oil price rises

Oil prices spent the week over \$70 per barrel as concerns regarding supply disruptions persisted. The US Department of Energy announced that they expect oil to average at \$68 at least until the end of 2007.

US dollar remains under pressure

The US dollar continued its decline against all major currencies, with the €//\$ rate rising to 1.28. The dollar lost over 1% against the euro on the week.

Market	Index	Year to Date Return 31.12.05 to 12.05.06		1 Week Return 05.05.06 to 12.05.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	3.4	-5.1	-1.7	-2.8
US	NASDAQ	1.7	-6.6	-4.2	-3.7
Europe	FT/S&P Europe Ex. U.K.	9.9	9.9	-2.4	-2.4
Ireland	ISEQ	5.5	5.5	-2.4	-2.4
UK	FTSE 100	5.2	6.2	-3.0	-2.5
Japan	Topix	2.3	0.4	-2.8	-2.1
Hong Kong	Hang Seng	13.6	4.3	-0.7	-1.8
Australia	S&P/ASX 200	11.9	7.9	1.4	0.2
Bonds	Merrill Lynch Euro over 5 year Govt.	-5.4	-5.4	-0.4	-0.4

Equities



USA

S&P 500

Fears about interest rates and inflation unsettled investors last week leading to sharp declines in US equity markets. The technology heavy NASDAQ was hardest hit, with chipmakers, in particular, suffering big falls.

Key Movers

Dell – The technology giant said that quarterly profits would fall short due to price cuts aimed at increasing market share and revenue. The share price fell 6% over the week.

Cisco – Cisco followed Dell's lead when it announced fourth quarter revenue forecast that disappointed investors.

General Motors – A number of upgrades by leading brokers resulted in a 13% rise in General Motors stock.



Europe

Key Movers

Steel stocks – There were positive earnings announcements from ThyssenKrupp, Arcelor and Mittal Steel. Rising demand for steel underpinned the earnings.

Michelin– The French tyre-maker warned that it was becoming increasingly difficult to pass on higher rubber prices to the market. The stock fell 5% on the week.

Technology – Technology stocks took their lead from their US counterparts and the sector was the biggest underperformer in Europe on the week.

UK market slumps 3% – In the UK, the FTSE 100 suffered its biggest one day loss in two years. Old Mutual, the financial services provider, was one of the biggest losers, falling 9%, due to earnings results that failed to meet analyst expectations.



Ireland

Inflation – The Irish market declined on the week following the general downward trend in global equity markets. The release of stronger than expected inflation data also had a negative impact on the market.

Ryanair– Ryanair fell 4% over the week due to the impact of higher oil prices on the low cost airline.



Asia Pacific

Japan

Japanese markets fell almost 3% as exporters were affected by dollar weakness against the yen. Sony, Canon and Toyota share prices all suffered as a result.

Australia

Australian markets bucked the trend and recorded strong returns on the week after the government released a market friendly budget.

Bonds

Bond prices weaken – Eurozone government bond prices saw further falls last week with the Merrill Lynch over 5 Year Government Index declining 0.4%.

Eurozone economic growth – The market was negatively impacted when the European Central Bank increased its forecasts for eurozone economic growth from 2% to 2.1%.

US interest rates rise – The US Federal Reserve raised rates to 5% during the week. The statement accompanying the rise affected bond markets as the Fed made it clear that the future direction of rates will depend on emerging economic data. Investors had been confident of a pause in interest rates prior to the statement.

Global Outlook

- Growth expectations remain at high levels with global GDP now expected to expand by 3.7% in 2006, slightly above last year's figure of 3.6%. Surging commodity prices remain a key focus of the major central banks.
- The Fed raised rates to 5% last week and gave clear signals that it will pause in its rate hike at the next meeting. However, further policy moves beyond that remain dependent on economic data, so investors will be sensitive to information that could result in further rate hikes.
- Investors expect ECB rates to be raised to over 3.25% by year end with the next move in June; ECB rhetoric continues to be hawkish and the stronger euro/weaker US dollar does not seem to be influencing its thinking so far. Despite moderate inflation in the eurozone, rising short rates and less than expected demand from pension funds has kept bond prices under some pressure.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets or produce shorter term corrections. The gradual ending of super-easy money policies in Japan continues to deserve attention because of its potential negative impact on various asset classes.
- Currently, the funds are neutral to underweight in bonds and slightly overweight in equities versus the manager average. Sectorwise, the funds are overweight industrials and financials while underweight some of the defensive areas, like telecoms. Geographically the funds are underweight Ireland and North America. The UK, Europe, Japan and Pacific remain overweight.