



## Global Overview

### Further turbulence on equity markets

Most equity markets managed to end the week in positive territory despite much volatility particularly in emerging markets.

### Hedge funds cut positions

Much of the turbulence was due to leveraged investors such as hedge funds selling out of equities to stem losses.

### Rebound on commodity markets

Copper price rose over 7% with other metals such as nickel and aluminium also making gains. Gold was the exception, falling about 1% over the week. Oil prices finished the week at over \$70 a barrel.

### US economic data

In the US there was weaker than expected gross domestic product data which helped the market as it alleviated fears of rising interest rates. However, sales of durable goods fell more than expected.

### Improved economic data from Germany

German consumer confidence rose to the highest level in more than four years. Growth in Europe's largest economy accelerated and unemployment declined.

| Market    | Index                                | Year to Date Return<br>31.12.05 to 26.05.06 |           | 1 Week Return<br>19.05.06 to 26.05.06 |           |
|-----------|--------------------------------------|---------------------------------------------|-----------|---------------------------------------|-----------|
|           |                                      | Local Currency<br>%                         | Euro<br>% | Local Currency<br>%                   | Euro<br>% |
| US        | S&P 500                              | 2.6                                         | -4.6      | 1.0                                   | 1.4       |
| US        | NASDAQ                               | 0.2                                         | -6.8      | 0.8                                   | 1.1       |
| Europe    | FT/S&P Europe Ex. U.K.               | 6.6                                         | 6.6       | 1.6                                   | 1.6       |
| Ireland   | ISEQ                                 | 3.9                                         | 3.9       | 1.0                                   | 1.0       |
| UK        | FTSE 100                             | 3.1                                         | 3.5       | 2.4                                   | 1.5       |
| Japan     | Topix                                | -2.2                                        | -4.8      | -1.5                                  | -2.1      |
| Hong Kong | Hang Seng                            | 6.9                                         | -0.6      | -2.6                                  | -2.3      |
| Australia | S&P/ASX 200                          | 6.1                                         | 2.0       | -0.9                                  | -0.5      |
| Bonds     | Merrill Lynch Euro over 5 year Govt. | -3.9                                        | -3.9      | 0.9                                   | 0.9       |

## Equities



### USA

#### US markets

Although inflation fears continued to dominate market sentiment, US markets finished up on the week.

#### Key Movers

**Yahoo & Ebay** – The technology companies agreed to multiyear deal which will see them cooperating on advertising. Both stocks jumped as a result.

**General Motors** – The stock rose 15% following an upgrade from Merrill Lynch due to successful efforts by the carmaker to cut costs.

**Mastercard** – Mastercard made its debut on the stock markets last week rising 15% from its initial price to \$45.



## Europe

### Overview

A pick up in sentiment by the end of the week helped European markets to record positive returns.

### Key Movers

**OMV** – The Austrian oil and gas group's merger with state controlled electricity company Verbund was axed. The stock rose 11% as a result.

**Resource stocks** – Stocks such as Statoil, Neste Oil and Norsk Hydro, the Norwegian energy and metals group, had a better week as resource stocks recovered some ground.

**UK market rises 2.4%** – In the UK, the FTSE 100 delivered its best weekly advance since November, helping it to regain a proportion of the sharp falls from the previous week.

**Cyclical stocks** – Cyclical stocks such as Xstrata and BHP Billiton advanced over 4% as investors sensed a buying opportunity.



## Ireland

**Elan** – Elan had a good week rising 2% on the back of a positive update at its annual general meeting.

**CRH** – The construction company moved in line with its international peers and rose on the week.



## Asia Pacific

### Japan

Japanese stocks suffered declines on the week led by weakness in banking stocks. Mitsubishi UFJ, the world's biggest bank by assets, fell over 6% after it forecast a steep fall in earnings.

### Hong Kong

The Hang Seng rose 1.3% on Friday, helping to stem losses for the week to 2.6%.

## Bonds

**Bond prices rise** – Bond prices rose last week as investors sought a safe haven environment from tumultuous equity markets. German inflation data was more subdued than expected easing back to 2.1% from 2.3%. The Merrill Lynch over 5 Year Government Index rose 0.9% on the week.

## 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 recently raised rates to 5% and gave clear signals that it will consider a pause at its next meeting. However, further policy moves beyond that remain dependent on economic data, so investors will be sensitive to any information that could influence the current debate within the Fed.
- Investors expect ECB rates to be raised close to 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 the type of corrections we have seen during May. 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 close to neutral in equities versus the manager average. Sectorwise, the funds are overweight industrials while underweight some of the defensive areas like telecoms. Geographically the funds are underweight Ireland and North America; while the UK, Japan and Pacific are closer to neutral. Europe remains overweight.