

Global Overview

Equity markets mixed

Equity markets were mixed last week against a backdrop of uncertainty about interest rates, heightened geopolitical concerns and steep oil prices; there was some relief in Europe that the ECB didn't raise rates.

US employment data

Employment data in the US came in weaker than expected but was countered by high wage inflation data which showed that average hourly earnings growth came in at 3.9%, the highest level since 2001. On balance, the data was taken as mildly dovish and this allowed rate expectations to fall slightly.

Eurozone rates unchanged

The European Central Bank left interest rates unchanged at 2.75% on Thursday. However, comments from the ECB gave strong indications that interest rates will rise at the start of August, slightly earlier than had been expected.

Commodity markets

Oil prices hit an all time peak of \$75.78 due to concerns over missile tests in North Korea, as well as increased demand from US consumers. Gold prices also continued to rise re-establishing their upward trend to finish at \$632 for the week.

Currency markets

The US dollar erased gains from earlier in the week on Friday, due to weaker jobs data from the US. The dollar finished the week marginally weaker against the major currencies with the euro rising to slightly over \$1.28.

Market	Index	Year to Date Return 31.12.05 to 07.07.06		1 Week Return 30.06.06 to 07.07.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.4	-6.5	-0.4	-0.7
US	NASDAQ	-3.4	-10.9	-1.9	-2.2
Europe	FT/S&P Europe Ex. U.K.	3.8	3.8	0.0	0.0
Ireland	ISEQ	3.2	3.2	1.1	1.1
UK	FTSE 100	4.8	4.2	1.0	0.9
Japan	Topix	-4.6	-8.9	-0.9	-0.7
Hong Kong	Hang Seng	10.6	1.9	1.2	0.9
Australia	S&P/ASX 200	7.8	1.9	1.2	2.2
Bonds	Merrill Lynch Euro over 5 year Govt.	-4.8	-4.8	0.1	0.1

Equities



USA

Overview

The US market failed to make ground this week with technology stocks, in particular, bearing the brunt of the investor nervousness.

Key Movers

Ebay - The internet auction site fell 8% following an announcement of a management shake up and a price target downgrade from Citigroup.

Tobacco stocks - A Florida court rejected a \$145 billion damages award against tobacco companies. Altria, owner of Philip Morris, gained over 5% as a result.

Hewlett Packard - Hewlett Packard bucked the downward trend on technology stocks by rising almost 4% when it announced that it had been chosen for a big IT corporate contract.



Europe

Overview

It was a subdued week on European markets as interest rate speculation took its toll.

Key Movers

Energy stocks – Oil stocks performed well on the back of rising oil prices. Norway's Statoil rose 6% on the week.

EADS – The aerospace group fell as doubts emerged regarding the value of Airbus, the aircraft manufacturer, in which it has an 80% stake.

Aviva – In the UK, Aviva announced it is in talks to buy US insurer, AmerUs. Aviva stock fell as a result.



Ireland

Ryanair – The share price was up 8% on the week when it reported a 23% increase in the number of passengers it carried in June 2006 versus June of last year.

CRH – CRH delivered an upbeat half year trading update, and indicated that business is strong across most regions. Profits before tax are up a third.



Asia Pacific

Japanese stock falter – The Japanese market rallied early in the week as the Tankan survey of business confidence showed plans by companies to increase capital spending and investment. However, the market was rattled later in the week by news of North Korea's missile tests.

Australian resource stocks – Resource stocks in the Australian market had a good week on the back rising commodity prices. There was consolidation in the coal industry as US group Peabody Energy bid for Excel Coal.

Bonds

Bond prices steady – Bonds traded in a range last week as the positive impact of weaker US employment data was offset by an up tick in US wage inflation numbers. The European Central Bank left rates on hold at 2.75%, as expected and hawkish comments by Jean-Claude Trichet, president of the ECB, have already been priced into the market. The Merrill Lynch over 5 year index was up 0.1% on the week.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand by 3.7% in 2006, slightly above last year's figure of 3.6%. The major central banks are focused on cyclical inflation pressures and strong commodity prices.
- The Fed recently raised rates to 5.25% last week. The probabilities assigned to a further hike or a pause in rate moves have jumped around over the past few weeks, as markets try to gauge the impact of new economic data on the debate within the Fed. Currently, investors expect another 0.25% by year end, with rates peaking at that level.
- Despite moderate inflation in the eurozone, rising short rates and less than expected demand from pension funds have kept bond prices under pressure so far this year. The ECB raised rates as forecast to 2.75% recently and markets expect at least two more 0.25% hikes by year end, with a higher probability now given to three such rate hikes following recent ECB commentary.
- 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 remain a concern. The gradual ending of super-easy money policies in Japan continues to deserve attention because of its potential negative impact on various asset classes. This week's policy meeting will be watched carefully given the expectations that rates will be increased from the zero level for the first time in six years.
- Currently, the funds are close to neutral in bonds and overweight equities versus the manager average. Sectorwise, positions are currently pretty balanced as well. Geographically the funds remain underweight Ireland and more neutral in the other regions.