



## Global Overview

### Equity markets mixed

Global equity markets turned in mixed performances on the week, though the tone was much better than the previous week.

### Bernanke testimony

In his first semi-annual testimony to Congress on US monetary policy, Fed Chairman Bernanke said that he expected core US inflation to moderate over the coming months as growth in the US economy eases. This was broadly interpreted as meaning that US rates may not move in August and are near their peak.

### US results season

The second-quarter earnings reporting season got into full swing and has been positive so far with the disappointments, when they have come, tending to be in the technology sector. This is reflected in the under-performance of the NASDAQ index on the week.

### Commodity prices slide

Despite an upturn on Friday, oil prices slid 3-4% on the week, to finish in the region of \$74 per barrel. Many metals fell, copper dropping 10%, zinc losing 9% and aluminium falling 6%.

Market	Index	Year to Date Return 31.12.05 to 21.07.06		1 Week Return 14.07.06 to 21.07.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-0.6	-7.3	0.3	0.0
US	NASDAQ	-8.4	-14.5	-0.8	-1.2
Europe	FT/S&P Europe Ex. U.K.	0.8	0.8	0.8	0.8
Ireland	ISEQ	0.2	0.2	1.1	1.1
UK	FTSE 100	1.8	2.6	0.2	1.0
Japan	Topix	-8.1	-13.1	-0.4	-0.7
Hong Kong	Hang Seng	10.7	3.0	2.0	1.7
Australia	S&P/ASX 200	4.1	-0.4	-0.1	-0.6
Bonds	Merrill Lynch Euro over 5 year Govt.	-3.8	-3.8	0.4	0.4

## Equities



### USA

#### Overview

At this stage of the reporting season, the blended growth rate for second-quarter earnings stands at a healthy 13.6%. However, there have been some major disappointments along the way.

#### Key Movers

**Among the positives** – Microsoft reported a 24% drop in quarterly earnings, but this was still ahead of estimates, helping the stock to rise over 7%. Apple jumped nearly 20% as profits soared 48% in the second quarter. JPMorgan Chase gained over 5% after it announced a tripling in second-quarter profits. Pfizer added 7% on a 10% rise in quarterly profits. Motorola surged nearly 9% thanks to record sales of handsets.

**Among the negatives** – Yahoo reported a 78% slump in second-quarter earnings. The company has had a problem with the introduction of its new advertising platform. The stock fell almost 20% on the week. Dell fell 10%, blaming fiercely aggressive pricing in the PC market for a failure to meet forecasts. Chipmakers Advanced Micro Devices and Intel both fell, the former by over 12%.



## Europe

### Overview

European markets were positive on the week, with the best returns coming from the Netherlands and Switzerland. The UK saw the weakest growth, rising 0.2%.

### Key Movers

**Nokia & Ericsson** – Ericsson added 7% on the week, driven by reports of a valuable contract win. Nokia gained over 5%, despite lacklustre results.

**Other gainers** – Philips Electronics reported good results early in the week and gained over 6% on the week. Roche, the Swiss pharmaceutical group, rose 4% on the week after some good results and a number of broker upgrades.

**Standard Life** – Trading in the newly-floated life insurer was said to be heavy in advance of the stock's inclusion in the MSCI Index this week.



## Ireland

**Bank of Ireland** – At its AGM on Friday, Bank of Ireland Governor Richard Burrows said that the first quarter had seen a strong trading performance and that the bank expects to deliver low to mid-teens percentage earnings growth this year.

**C&C** – Shares in the producers of Magners cider rose over 8% on the week (the stock is now up over 22% over the past month), driven by the continuing phenomenal success of the cider brand in the UK.



## Asia Pacific

Most Asian markets had a positive week, driven by a surge on Thursday in the wake of the Bernanke testimony. Hong Kong was particularly strong, rising 2% on the week. The Topix Index in Japan finished slightly down, as investors await a slew of earnings announcements from companies such as Sony, Sharp, Nissan and Matsushita Electric this week.

## Bonds

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Eurozone bonds finished the week in positive territory, the Merrill Lynch over 5 year index rising 0.4% on the week. The dominant influence on world bond markets was Ben Bernanke's Congress testimony on Wednesday, which was construed as being bond-positive, suggesting that inflation may be moderating in the US and that rates, therefore, may be close to a peak.

## Global Outlook

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- Growth expectations remain at high levels with global GDP forecast to expand by 4.0% in 2006, slightly above last year's figure of 3.7%. The major central banks are focused on cyclical inflation pressures and strong commodity prices.
- The Fed recently raised rates to 5.25%. The probabilities assigned to a further hike or a pause in rate moves have jumped around over the past few weeks. Currently, investors expect rates to peak close to 5.5% by year end, with the Fed pausing over the next couple of months before one final hike after that.
- The ECB raised rates, as forecast, to 2.75% recently and markets expect at least two more 0.25% hikes by year end. Bond prices have taken some comfort of late from well-behaved underlying inflation data and the thought that growth might peak in 2006.
- 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 continue to be a concern and periods of volatility are likely. The gradual ending of super-easy money policies in Japan deserves attention because of its potential negative impact on various asset classes.
- Currently, the funds are neutral in bonds and slightly 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.