

Global Overview

Equity markets record gains

Global equity markets moved forward last week on the back of positive earnings results and a shift in interest rate expectations in the US.

US interest rates

In the US, the Federal Reserve left interest rates unchanged as expected. The accompanying statement was less hawkish about inflation. This along with weaker than expected US GDP figures helped to dispel any lingering doubts as to whether US interest rates have peaked.

Corporate earnings

Corporate earnings reports continue to surprise on the upside with 74% of US companies and 72% of European companies that have reported beating expectations.

Oil prices

Oil prices experienced much volatility last week. Prices rallied on Wednesday on the back of poor US inventory data and concerns regarding oil exports from Saudi Arabia. However, they fell back subsequently due to weak US GDP data.

Currencies

The US dollar fell against the euro and the yen due to pared back interest rate expectations and weaker than expected US GDP growth. The dollar fell over 1% against the euro to 1.27.

Market	Index	Year to Date Return 31.12.05 to 27.10.06		1 Week Return 20.10.06 to 27.10.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	10.3	2.6	0.6	-0.3
US	NASDAQ	6.6	-0.9	0.4	-0.6
Europe	FT/S&P Europe Ex. U.K.	14.8	14.8	0.5	0.5
Ireland	ISEQ	16.6	16.6	1.0	1.0
UK	FTSE 100	9.7	12.5	0.1	0.1
Japan	Topix	0.1	-6.7	0.4	0.4
Hong Kong	Hang Seng	23.0	14.0	1.0	0.2
Australia	S&P/ASX 200	12.5	9.6	0.4	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.8	-0.8	1.0	1.0

Equities



USA

Overview

US stocks made ground last week due to impressive earnings results despite concerns over weaker than expected economic growth.

Key Movers

Energy stocks – Chevron reported upbeat third quarter earnings and the share price rose 5% over the week. Exxon Mobil also delivered better than expected results and rose 3%.

Google – Online search engine Google hit an all time high underpinned by a 92% rise in third quarter profit. The share price rose 4% on the week. There were also good results from Microsoft.

Boeing – Aircraft maker Boeing fell 2% when it reported a drop in earnings.



Europe

Overview

European markets rose to five year highs last week on the back of excellent third quarter earnings results.

Key Movers

Telecoms Sector – Telenor led the way rising 13% due to a rebound in average revenue per user in Nordic markets. France Telecom, Deutsche Telekom and Telefonica also delivered good results.

Auto stocks – European auto stocks performed well with both DaimlerChrysler and Renault reporting strong third quarter results.

UK market – The UK had a volatile week with the FTSE 100 hitting a five year high before falling back on Friday to end the week just marginally in positive territory. Pharmaceuticals such as GlaxoSmithKline and AstraZeneca fell 3% due to disappointing news on drug pipelines.



Ireland

AIB – There were media reports last week that AIB is releasing another 25 investment properties onto the market in its next batch of branch sales.

C&C – The stock added another 6% last week on the back of continued success from its Magners brand in the UK. The stock is now up 141% this year.

Elan – There were disappointing third quarter results from Elan. Global revenues for the multiple sclerosis drug Tysabri were lower than expected and the share price fell over 5% as a result.



Asia Pacific

Hong Kong – In Asia, all eyes were on the Hong Kong market which recorded a 1% gain over the week driven by strong demand for Industrial and Commercial Bank of China. The stock has risen 12% since it was launched the week before last.

Australia – The Australian market gained 0.4% on the back of rising commodity prices.

Bonds

Bonds rallied on both sides of the Atlantic last week as weak GDP data from the US contributed to evidence of a slowdown in the world's largest economy. A much anticipated decision by the US Federal reserve to keep interest rates on hold as well as benign US inflation data was also bond friendly. The Merrill Lynch > 5 year Index rose 1% on the week.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand robustly again in 2006, although leading indicators suggest some growth moderation in 2007. The major central banks continue to focus on cyclical inflation pressures stemming from strong growth and high oil prices.
- As expected, the Fed left rates unchanged at 5.25% at its meeting last month. Investors now believe that interest rates have peaked for this cycle. However, this expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation. Market expectations for early rate cuts may have to be pared back further, given the cautious Fed comments in this regard.
- As expected, the ECB recently raised rates to 3.25% and confirmed market expectations of a further rise to 3.5% before year end. It gave little indication of its plans for 2007 although the tone of ECB rhetoric continues to be hawkish overall. Bonds had performed well on the back of better inflation data and some indications that global growth might peak this year, but may suffer a little from ongoing ECB hawkishness.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; tighter liquidity conditions from higher interest rates continue to be a concern and periods of volatility are likely. The sharp fall in energy prices from their summer peaks may help underpin positive sentiment in the near term. 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 close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight industrials but other positions continue to be pretty balanced. Geographically, the funds are overweight in Europe, underweight Ireland and the US and more neutral in the other regions.