

Global Overview

Equities retreat

Equity markets fell sharply after investors feared that Dubai would default on its debt, hurting economic growth and financial markets, while possibly sparking another crisis. Most markets finished the week only slightly lower, though Asia fell heavily.

Eurozone confidence

An index of executive and consumer sentiment in the 16-nation region improved for the eight successive month, pointing to the recovery in the region gathering strength.

Volatility index

After declining for three weeks, the volatility index jumped 11% last week as fear rose amongst investors. The index surged 21% after the news regarding Dubai hit markets.

US economic data

Data released last week showed further improvement in jobless claims. 466,000 Americans filed for unemployment benefits last week, the lowest amount since September 2008. New homes' sales in October also improved and were better than analysts had expected.

Currencies

As investors turned away from equities towards safer assets, the euro gave back some of its gains against the US dollar. Having gone above 1.505 early in the week, the €/£ finished just below 1.50, a gain of 0.7%.

Oil

Oil prices declined by 1% last week, as investors moved away from commodities and equities towards the safety of the dollar. Oil prices finished the week at \$76 a barrel.

| | Index | Year to Date Return 31.12.08 to 27.11.09 | | 1 Week Return 20.11.09 to 27.11.09 | |
|-----------|--------------------------------------|---|-----------|---------------------------------------|-----------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S&P 500 | 20.8 | 12.7 | 0.0 | -0.7 |
| US | NASDAQ | 35.6 | 26.5 | -0.4 | -1.1 |
| Europe | FT/S&P Europe Ex. U.K. | 20.4 | 20.4 | -0.1 | -0.1 |
| Ireland | ISEQ | 21.4 | 21.4 | -1.1 | -1.1 |
| UK | FTSE 100 | 18.3 | 24.8 | -0.1 | -0.8 |
| Japan | Topix | -5.6 | -7.9 | -3.3 | -1.6 |
| Hong Kong | Hang Seng | 46.9 | 37.0 | -5.9 | -6.6 |
| Australia | S&P/ASX 200 | 22.8 | 47.4 | -2.4 | -3.9 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 5.0 | 5.0 | 0.2 | 0.2 |

Global Equities



United States

Overview

US markets gave back the early-week gains that followed some encouraging economic data, as speculation mounted that Dubai would default on its debt. Investors feared that this would stall the economic recovery and hurt the financial system.

Financial sector – Bank of America, Goldman Sachs and Morgan Stanley all retreated last week, resulting in the financial sector being the biggest faller of the ten sectors, down 2.3%.

Alcoa – The largest aluminum producer in the US fell by over 3% as investors speculated that economic growth would slow up on the back of concerns in Dubai, causing demand for commodities to slump.



Europe

Overview

Concern worldwide also hit European stocks, causing them to pare early-week gains and finish the week relatively flat. This was despite some encouraging investment sentiment data in the region.

Banking stocks – Banking stocks were the hardest hit sector as investors feared that funding for governments and banks will be more difficult to source. Commerzbank, Germany's second largest bank, fell by almost 5%, while the National Bank of Greece slid 9% on the week.



Ireland

Overview

The Irish market finished the week 1% lower, led by resource stocks and media company, Independent News and Media.

Independent News and Media – IN&M's shareholders last week approved the final two resolutions relating to the company's restructuring. These involved approval for the sale of the company's South African unit, along with plans to proceed with a rights issue. The stock finished the week almost 12% lower.



Asia Pacific

Overview

Asian markets slumped on concern that companies will experience losses due to Dubai's plan to delay debt repayments, hitting both share prices and the economic recovery in the region. Dubai World, the government investment company, said it will ask creditors for a 'standstill' agreement on repayments as it attempts to extend the maturities on its debt. Construction stocks were hit heavily across the region.

Bonds

Eurozone bonds gained for another week, as investors exited equities following the news emanating from Dubai, while elsewhere the German government said it would invest almost €4bn in WestLB. The Merrill Lynch over 5 year government bond index rose by 0.2% on the week, and has now gained 5% this year.

Global Outlook

- It is anticipated that the global economy will return to positive growth in 2010 after a further contraction of 1% this year. Unemployment will lag the recovery in the economy however, so economic conditions will continue to "feel" weaker than they are. Strains within the financial system have eased considerably but bank lending is still impaired. Partly for this reason, policymakers are somewhat cautious on the economic outlook. Trade tensions are not yet a major issue but bear watching for any economic or market impact.
- Much of the economic improvement is attributed to the scale and scope of policy initiatives to rescue the banking system and offset the collapse in private sector demand. As we have said before, the ultimate success of these initiatives (or what unintended consequences may arise) remains an open question.
- Short rates remain in a range between 0% and 1% in the major economies, presenting central banks with a tough challenge. They want to keep rates sufficiently low to foster recovery but also want to exit from emergency policy settings as quickly as conditions permit. Recent rate increases in economies like Australia and Norway had made investors slightly more nervous, although it's notable that future rate expectations in the US and eurozone reached new lows in the past two weeks. Therefore, investors expect that low rates will persist for some considerable time, a feeling that was bolstered by recent communications from the major central banks.
- For bond markets, inflation data is still generally supportive, as is the general liquidity backdrop that has helped other assets. However the "elephant in the room" remains the exit from emergency policy settings (which is bound to have some impact on bond markets) and these concerns have kept bond markets in a trading range, in the past few months. In the eurozone, peripheral bond markets have seen their spreads over Germany widen again as risk assets suffered a setback.
- Global equity markets valuations remain rich rather than cheap. To date, markets have been able to grind out recoveries from any dips, with sentiment remaining positive on balance. The structure of the rally remains unconvincing, however, as volume remains light and momentum indicators diverge. The reaction to last week's news from Dubai is another test of the strength of the markets' conviction.
- Currently, the funds are closer to neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight utilities. Geographically, the funds have an underweight position in Ireland and Japan, are closer to neutral in the UK, the US and Europe and are overweight in the Pacific Basin.

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