

Global Overview

Mixed week for markets

It was a mixed week for equity markets as investors digested earnings results from the first few companies to release numbers, while also focussing on the effect of China's move to reduce some of the liquidity from its financial system.

US economic data

Following on from the disappointing jobs data the previous week, there was further disappointing data last week. Retail sales unexpectedly declined, while consumer prices rose by less than forecast.

European data

As expected, the ECB held interest rates at 1% last week. However, there was further concern about Greece's budget deficit. Members of the ECB had to quash rumours that Greece would default on its debt and abandon Europe's single currency.

Chinese bank reserves

With new loans continuing to exceed forecasts, the Chinese government moved to rein in lending and remove some liquidity from the system by increasing the bank reserve ratio. This requires Chinese banks to set aside more of their deposits, with the aim of cooling the expansion in the economy.

Dollar strengthens, gold & oil weaken

After the weak economic data, earnings releases and tightened lending in China, investors' demand for the safe-haven of the US dollar increased. The dollar gained almost 1% against a basket of six major currencies, the €/€ rate ending just below 1.44. Gold and oil prices both declined due to the dollar strengthening against the euro, as it curbs demand for commodities as an alternative investment.

	Index	Year to Date Return 31.12.09 to 15.01.10		1 Week Return 08.01.10 to 15.01.10	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.9	1.6	-1.0	0.0
US	NASDAQ	0.8	0.5	-1.1	-0.1
Europe	FT/S&P Europe Ex. U.K.	0.8	0.8	-1.6	-1.6
Ireland	ISEQ	4.3	4.3	0.1	0.1
UK	FTSE 100	1.3	2.2	-1.0	1.3
Japan	Topix	5.5	7.9	1.7	4.1
Hong Kong	Hang Seng	-1.9	-2.3	-4.2	-3.4
Australia	S&P/ASX 200	0.8	3.6	-0.8	-0.2
Bonds	Merrill Lynch Euro over 5 year Govt.	0.7	0.7	0.3	0.3

Global Equities



United States

Overview

US markets retreated last week, after hitting a 15-month high, as earnings from both Alcoa and JP Morgan disappointed investors and economic data lagged expectations.

Earnings releases – Alcoa, the biggest aluminium producer fell by 8% over the week, after its Q4 earnings trailed analysts' expectations. JP Morgan also missed expectations after posting its first quarterly loss since early 2008. It also boosted reserves for future losses on consumer loans. It fell by 2.2%, while many other banking stocks followed suit as investors took profits in the sector.



Europe

Overview

European stocks fell for the first time in four weeks due to earnings, economic data and the souring sentiment towards banks.

Banking stocks – Banking shares were the worst-performing sector last week, due to fears about Greece's deficit, disappointing results from JP Morgan and the Chinese government's move to rein in lending. National Bank of Greece was the worst performer, ending the week 17% lower.



Ireland

Overview

Despite weakness for both Bank of Ireland and Allied Irish Banks, the Irish market finished the week unchanged.

C&C – In its interim management statement, C&C said it remained on track for full-year earnings at the "top end" of the €77m to €82m range, despite the most recent quarter being poor for its core cider division. It confirmed that December was a more positive trading month for both its cider and spirits & liqueurs, and also said the contribution from the recently acquired Tennent's business was ahead of expectations.



Asia Pacific

Overview

The main focus of attention in the region last week was on China. Data released for December showed that both exports and imports in China rose strongly compared with one year previously. However, with loans also hitting records, the government moved to increase the bank reserve ratio in order to try to cool economic growth.

Bonds

Eurozone bonds gained slightly after the ECB signalled that it will wait for more signs of recovery before withdrawing emergency measures further. Jean-Claude Trichet said that 'a great level of uncertainty' surrounds the economic outlook for the region. The Merrill Lynch over 5 year government bond index rose by 0.2% on the week.

Global Outlook

- As we have been saying for some time, forecasters are positive for global growth during 2010. The key is whether the economies in Europe and the US are strong enough to stand on their own, and whether governments and central banks can withdraw some of the massive stimulus they have been providing. Note that while strains within the financial system have eased considerably, bank lending is still impaired. It is partly for this reason that policy makers remain somewhat cautious on the economic outlook and this remains a key variable to watch during the year.
- The long-term implications of the past two years and the unintended consequences of policy actions are still hot debates in the investment and political worlds. So far, risk assets have responded positively and that remains the immediate focus for most market participants.
- Short rates continue to hover in a range between 0% and 1% in the major economies. Investors keep getting nervous about rate expectations in the US and Europe only for policy makers to make soothing comments. At the same time, the latter want to exit from emergency policy settings as quickly as conditions permit, a tricky balancing act which continues to be difficult to communicate. It is notable that end-2010 rate expectations in the US and eurozone are close to their lows, and in the UK have only just made a new low. On balance, therefore, investors expect that low rates will persist for some considerable time.
- For bond markets, inflation data is still generally supportive, as is the general liquidity backdrop that has helped other assets. As was said many times last year, 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 continue to keep bond markets in a broad trading range. In the eurozone, peripheral bond markets, primarily Greece, have been more volatile of late but Irish bonds have behaved well in that context.
- Global equity markets remain on the richer side of the neutral valuation line. But markets continue to grind out recoveries from any dips, with sentiment remaining positive on balance; the "pain trade" still seems to be that markets will go higher with investors forced into the markets. Many argue that the structure of the rally has been less convincing than the pure market levels suggest and that significant risks remain but the positive forces prevail at the moment.
- Currently, the funds are neutral to overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and basic materials and underweight utilities. Geographically, the funds have an underweight position in Ireland, are closer to neutral in the UK, US and Japan, and are overweight in Europe and the Pacific Basin.

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