

Global Overview

Equity markets gain

Equity markets extended their September gains as comments from central banks worldwide increased bets that further stimulus will be implemented to try to boost economic growth. Japan has led the way already and investors expect others to follow at their upcoming meetings.

US jobs picture

Figures released for September showed that American payrolls fell by 95,000 workers during the month. This was worse-than-expected but boosted speculation that the Federal Reserve will resume some form of quantitative easing (QE) to support economic growth.

German export data

The latest German export data showed that exports declined for the second-month running. This was due in part to the strengthening euro and slowing global demand.

Japan

The Bank of Japan launched a \$60bn programme aimed at lowering long-term borrowing costs and premiums on corporate debt, while also cutting its interest rate to 'zero to one' percent. The yen remains at 15-year highs against the dollar, hurting exports.

Dollar

The euro currency rose for yet another week against the dollar as prospects of quantitative easing increased in the US, causing further dollar weakness. The €/£ rate ended the week at 1.39. Chairman of the Federal Reserve, Ben Bernanke, said that QE aided the economy last time and that further easing is likely to help the stalling economy more.

Commodities

Crude oil rose above \$82 a barrel as investors are optimistic that the Fed's stimulus measures will lead to increased demand for oil. Further to this, as QE would weaken the dollar, the price of other dollar-denominated commodities also got a boost. Wheat and corn also rose strongly as inventories were lower-than-expected. On Friday, corn recorded its maximum upside limit for the second day running, when it rose 45 cents a bushel.

	Index	Year to Date Return 31.12.09 to 08.10.10		1 Week Return 01.10.10 to 08.10.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.1	9.3	1.5	0.8
US	S&P 500	4.5	7.6	1.6	0.4
US	NASDAQ	5.9	9.0	1.3	0.1
Europe	FT/S&P Europe Ex. U.K.	1.5	1.5	1.5	1.5
Ireland	ISEQ	-8.8	-8.8	1.9	1.9
UK	FTSE 100	4.5	6.3	1.2	0.7
Japan	Topix	-7.5	8.3	1.1	1.7
Hong Kong	Hang Seng	4.9	8.0	2.6	1.4
Australia	S&P/ASX 200	-3.9	8.6	2.2	2.5
Bonds	Merrill Lynch Euro over 5 year Govt.	7.8	7.8	0.5	0.5

Global Equities



United States

Overview

US markets rose over the week on speculation that the Federal Reserve will buy more debt to try to boost the economy. Ahead of the start of a busy week for earnings results, the S&P 500 index rose to levels not seen since last May.

Alcoa – The largest US aluminium producer kicked-off earnings season with expectations-beating Q3 results, which included revenue being up 15% from a year ago. Shares in the company rose over 5% during the week.



Europe

Overview

European markets rose the most in four weeks as investors speculated that central banks worldwide will implement measures to boost economic growth, as data shows it has been slowing over the past few months.

Greek banks – Three months after cutting the country's credit rating to junk-status, ratings agency Moody's announced it is impressed with Greece's efforts to reform its finances. This caused the country's banks to rally between 8% and 16%.



Ireland

Overview

The Irish market rose in line with the rest of the world, but concern remains over the strength of the Irish banks. AIB is the latest to be downgraded by credit ratings company S&P. AIB's long-term rating is now BBB+, which is three notches above junk status.



Asia Pacific

Overview

Asian markets continued their six-week winning streak as policy makers look to spur economic growth worldwide and in the region. Japan cut its interest rate to 'zero to one' percent, while Australia surprised investors by keeping its key rate unchanged. China also weighed-in on helping growth when Premier Wen said 'the nation will stimulate domestic demand to stabilise and further expand its economy'. Commodity stocks, including BHP Billiton (mining), China Shenhua Energy (coal) and Cnooc (oil) all gained over the week.

Bonds

Eurozone bonds gained for the third consecutive week as investors expect major central banks, including the US and the UK, to loosen monetary policy as economic data is failing to improve. These gains came, however, despite comments from the President of the ECB that there is no plan to slow the exit from the stimulus measures it introduced. The Merrill Lynch over 5 year government bond index rose by 0.5% over the week.

Global Outlook

- Global growth forecasts are still quite healthy enough for this year and next (3.6% and 3.3%). However, weak bank lending and financial market volatility add to downside risks to both forecasts and there have been some concerns over a double-dip in the US economy. Inflation pressures globally remain modest, reflecting weaker data in developed economies and stronger readings in emerging economies and Asia. Indeed, further disinflation is a greater near-term concern than inflation. Exports are very strong from some European economies but domestic demand remains subdued and the global economy is still very lopsided. The underlying strength of private sector demand in Europe and the US is a key concern.
- Central banks continue to set interest rates at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Canada, India and China. By extension, 2011 rate expectations are close to or have reached new cycle lows in the US, UK and eurozone, which underlines the risks facing the global economy. Worryingly, ECB rhetoric suggests anxiety about normalising short-term interest rates, which seems premature at this stage. Thus, the chances of a policy error have risen, albeit remaining quite low still.
- Low short-term interest rates and disinflation concerns, have been a support to major bond markets such as Germany, the US and Japan; long-term interest rates have recently fallen to record or near record levels in the US and Germany. Irish bond spreads versus Germany had widened by 2.5% since mid-year but narrowed 0.25% after the recent banking announcements and the cancelling of debt auctions. However, it remains to be seen whether the latter will have the desired market impact. Ireland has certainly funded well this year and has a large cash buffer. However, the risk remains that investors continue to probe the credibility of the rescue mechanism in place for eurozone countries; if so, a rocky road still lies ahead for Irish bonds.
- While global equities are 4% this year, it has been a period of very high volatility with several large gains and falls over the period. Partly because of this, investors' convictions have been low and holding periods quite short. Low interest rates certainly provide some forward support to risk markets but the dominant theme currently is that the Fed will ride to the rescue with further quantitative easing policy ("QE2"), although the Fed's recent comments suggest a division on the scale and timing of additional actions. After the latest rally it is possible that equities push on further. However, sentiment has already rebounded, meaning that the fuel for further gains may be limited. On balance, we remain slightly cautious at these levels; additionally, the fact that bond yields continue to fall or remain very low in major markets suggests that the macro risks are still high.
- Currently, the funds are slightly underweight equities and overweight bonds versus the manager average. Within equity sectors, the funds are now reasonably balanced. Geographically, the funds are underweight in Ireland and the UK, overweight in Europe and the Pacific Basin and closer to neutral in other markets.

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