Weekly
investment news

9th January 2006

## Global Overview

- Global equity markets kicked off 2006 in upbeat fashion. Technology stocks led the way up with the NASDAQ recording an impressive 4.6% return over the week.
- European technology stocks also performed strongly and European markets hit four and a half year highs.
- There was a great deal of talk about US interest rates when the Federal Reserve said that the number of future rate rises "probably would not be large". The release of softer then expected US employment and manufacturing data helped to reinforce the view that the peak of the interest rate cycle is in sight.
- Currency markets reacted to the Federal Reserve statement with the US dollar falling 2.4% to $1.21 against the euro. The dollar made gains of 15% against the euro in 2005.
- Commodity markets continued to surge ahead with copper markets reaching new highs. Gold rose above $530 an ounce due to speculation that China could increase gold holdings to diversify its foreign exchange reserves. Gas prices were volatile following a row between Russia and the Ukraine over supplies.

| Market | Index | Year to Date Return 31.12.05 to 06.01.06 | | 1 Week Return 31.12..05 to 06.01.06 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S & P 500 | 3.0 | 0.3 | 3.0 | 0.3 |
| US | NASDAQ | 4.6 | 1.8 | 4.6 | 1.8 |
| Europe | FT/S&P Europe Ex. U.K. | 2.3 | 2.3 | 2.3 | 2.3 |
| Ireland | ISEQ | 1.7 | 1.7 | 1.7 | 1.7 |
| UK | FTSE 100 | 2.0 | 2.4 | 2.0 | 2.4 |
| Japan | Topix | 2.1 | 2.6 | 2.1 | 2.6 |
| Hong Kong | Hang Seng | 3.2 | 0.4 | 3.2 | 0.4 |
| Australia | S&P/ASX 200 | 0.6 | 0.6 | 0.6 | 0.6 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 0.4 | 0.4 | 0.4 | 0.4 |

## Equities

### USA

- US markets had an exceptional start to 2006 with technology and energy stocks doing particularly well.
- Google, the internet search engine group, gained 13% on the week following a number of broker upgrades. Competitor, Yahoo, was up 4% on the week after Goldman Sachs upped its earnings forecasts.
- Ford Motors had a good week climbing 12%. General Motors had a partial reversal of its fortunes, rising 8% on the week. The stock was down 50% over 2005.

### Europe

- On European markets, technology stocks were buoyed by the performance of their US and Asian counterparts. Infineon rose 9% when it was upgraded by UBS. ST Microelectronics stock was up 7% on the week.
- Philips (+4%), the electrical goods maker, and ASML (+7%), the chip equipment manufacturer, were also the recipients of positive broker comments.
- Alcatel (+9%), the French telecommunications equipment group, also had a good week on the back of an upgrade from WestLB.
- In the UK, mining and oil stocks such as BP and Xstrata did well, supported by booming global commodity prices.

### Ireland

- The Irish market reached all time highs last week driven by buoyancy on the worldwide stage. Upbeat data on consumer confidence released last week also helped the market.
- The rally occurred across a broad range of stocks including C&C, Dragon Oil and Elan.
- CRH delivered a positive full year trading update with pre-tax profits up by 14% in 2005.

### Pacific Basin

- Asian markets had a positive week. Japan reached five year highs as confidence regarding the strength of the economic recovery boosted export and technology stocks.
- In Singapore, the market responded favourably to upbeat economic data which showed that gross domestic product grew by 10% in the fourth quarter, well ahead of expectations. Real estate stocks in Singapore also benefited from stronger home price data.

## Eurozone Bonds

- Eurozone bonds rose 0.4% on the week, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- Bonds markets were helped by continued speculation that interest rate rises in Europe are unlikely to be aggressive. A move to 2.5% is fully priced for March but it is now only 50/50 that the rate will be pushed up to 2.75% by June.
- There was stronger then expected manufacturing data in Europe but softer inflation data also helped to underpin bond markets on the week.

## Global Outlook

- Global growth continues to be healthy despite high oil prices and higher global interest rates. Inflation vigilance should remain high among the major central banks during 2006.
- Investors now expect US rates to peak at 4.75% in 2006 from current levels of 4.25%. The expectation is of course subject to the pace of activity and inflation data over the next few months.
- Investors remain on watch for data that may sway the ECB to further rate increases. In the background is still moderate inflation and pension fund liability matching which should continue to offer support to longer –dated bonds.
- Equity markets remain supported by a strong earnings' background and favourable valuations relative to bonds and cash; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight general industrials and financials while underweight some of the defensive areas like utilities and telecoms. Other sectors are broadly neutral. Geographically the funds are underweight Ireland and the UK, have increased the underweight position in the US; Europe and Japan remain overweight while the Pacific Basin is broadly neutral.

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