



Global Overview

Equities Generally Weaker

Equity markets around the world were generally weaker over the past week. Some earnings uncertainty and ongoing speculation about rising interest rates in all three major economic blocks – the US, Europe and Japan – unsettled markets.

Japan Shows Further Signs of Recovery

The January core consumer price index figure for Japan showed a rise of 0.5%. This has led to further speculation as to the date for an end to zero interest rates there.

Eurozone Interest Rates

The ECB raised eurozone short-term interest rates to 2.5% on Thursday, as predicted. In his accompanying remarks, Jean-Claude Trichet, ECB President, said that rates remained accommodative, leading to speculation that more rises are on the way.

Euro Strength

The euro gained against all major currencies in the wake of the rise in short-term rates outlined above. The euro/dollar rate ended the week at \$1.20, a rise of 1.2% for the euro on the week.

Market	Index	Year to Date Return 31.12.05 to 03.03.06		1 Week Return 24.02.06 to 03.03.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	3.1	1.5	-0.2	-1.4
US	NASDAQ	4.4	2.8	0.7	-0.6
Europe	FT/S&P Europe Ex. U.K.	5.9	5.9	-1.4	-1.4
Ireland	ISEQ	6.2	6.2	-1.6	-1.6
UK	FTSE 100	4.3	4.7	0.0	-0.7
Japan	Topix	-2.2	-2.6	-2.1	-2.9
Hong Kong	Hang Seng	6.2	4.5	-0.3	-1.5
Australia	S&P/ASX 200	2.8	2.6	0.1	-0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	-2.0	-2.0	-0.7	-0.7

Equities



USA

Overview

Blue-chip stocks and the broader market fell slightly in the US, while a strong performance from the technology sector kept the NASDAQ in positive territory.

Key Movers

Google – The technology bellwether experienced a roller-coaster week. It fell more than 7% on Tuesday after the CFO said that its growth was slowing, but recovered steadily over the rest of the week as a more positive outlook emanated from the company at its annual analysts' day.

Texas Instruments – The stock added over 10% after Goldman Sachs said it expected the company to raise its financial outlook at its update this week.

Intel – Leading semiconductor stock Intel warned that its first quarter gross margins would be hit by lower-than-expected revenue. The shares were down marginally on the week.



Europe

Continental Markets Down; UK Holds Its Own

European markets slipped over the week as some positive earnings news and takeover activity were overshadowed by concern over rising interest rates.

Key Movers

Fortis – The Belgian financial services company fell over 4% on the week. It was forced to release headline numbers from its full-year results prematurely following the theft of a briefcase.

Vodafone – Shares in the telecom stock rose 8.5% on Friday following confirmation that the company was in talks to sell its under-performing Japanese division.

LVMH – Luxury goods maker LVMH added nearly 4% on Thursday after the company announced a 16% increase in full-year operating profit to €2.74bn, beating market expectations.



Ireland

Economic News

The Irish market was jittery in the week that the ECB raised interest rates again by 0.25%, the ISEQ Index falling by 1.6%.

Key Movers

AIB & Elan – AIB fell victim to some profit-taking last week, while the stock also went ex-dividend. The share lost over 5% on the week. Elan stock is showing some signs of nervousness in advance of an important advisory panel meeting on March 7th/8th. The share was down over 13% on the week.



Pacific Basin

Japanese Market Dips

After a good start to the week, the Japanese market fell away to be down over 2% on the week. The steel and retailing sectors fared badly, with Seven & I, the holding company for Japan's Seven-Eleven outlets and Ito-Yokado department stores, falling sharply after it cut its profit forecast for the current year by 25%.

India on the Up

In the week that India and the US signed a landmark nuclear pact, the Indian stock market hit record highs, taking the rise in the Sensex Index over the past year to 55%.

Eurozone Bonds

Bonds Fall on Strong Data

Government bonds in all the major markets saw falling prices and rising yields as mainly strong economic data drove expectations of higher interest rates.

Eurozone Rates Up and Prices Down

The ECB raised eurozone short rates by 0.25%, as expected, but hawkish comments from President Trichet sent bonds yields up in anticipation of further interest rate rises.

Global Outlook

- Global growth continues to be healthy despite high oil prices and higher global interest rates. Consensus expectations are that global GDP will expand by 3.5% in 2006, similar to last year's rates.
- Following the most recent US rate increase to 4.5%, investors currently expect rates to peak close to 5%. The strength of economic activity and inflation data over the next few months will be key in this regard.
- After last week's ECB rate hike to 2.5% investors expect a further 0.5% increase over the balance of the year. Moderate inflation and pension fund liability matching should continue to offer some support to longer-dated bonds.
- Equity markets remain reasonably 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. The imminent end of super-easy money policies in Japan has been causing some jitters in both equity and bond markets.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight industrials and financials while underweight some of the defensive areas like utilities. Other sectors are broadly neutral. Geographically the funds are underweight Ireland, the UK and North America; Europe, Japan and the Pacific Basin remain overweight.