



Global Overview

Equity markets retreat

Equity markets faltered last week as expectations of a pause in US interest rate rises were challenged by a steep increase in labour costs. Labour costs rose almost 5% in the second quarter, well above the expected 3.8% increase.

Eurozone economic data

Hawkish comments from the European Central Bank also led to speculation over rising Eurozone interest rates. The comments were due to the release of stronger than expected German factory orders and upbeat retail sales data.

Currencies

The Japanese yen made gains last week against the euro following months of weakness driven by concerns regarding the strength of the economic recovery there. The rise was driven by the release of strong capital expenditure data. The US dollar rose 1.4% to against the euro as expectations of an interest rate rise came back into focus.

Oil prices

Oil prices were down more than 4% on the week to just under \$66 per barrel. The end of the US driving season combined with relative calm on the hurricane front contributed to the fall. Oil prices are down 16% from a high of almost \$79 per barrel a month ago.

Market	Index	Year to Date Return 31.12.05 to 08.09.06		1 Week Return 01.09.06 to 08.09.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	4.1	-2.9	-0.9	0.7
US	NASDAQ	-1.8	-8.3	-1.3	0.0
Europe	FT/S&P Europe Ex. U.K.	7.0	7.0	-1.2	-1.2
Ireland	ISEQ	8.2	8.2	-1.6	-1.6
UK	FTSE 100	4.6	6.1	-1.2	-2.0
Japan	Topix	-1.8	-7.5	-0.8	+0.6
Hong Kong	Hang Seng	15.3	7.3	-1.6	-0.3
Australia	S&P/ASX 200	7.0	2.7	0.0	-0.4
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.7	-1.7	-0.2	-0.2

Equities



USA

Overview

US markets moved lower last week driven by inflation and interest rate worries due to higher than expected labour costs.

Key Movers

Chevron – The oil company announced that it had successfully drilled an oilfield in the Gulf of Mexico which could potentially boost US crude oil reserves by 50%. Most other US energy stocks fell on the week due to the falling oil price.

Apple Computer – The computer giant rose over 6% on the week on speculation that it is to launch a film download service.

Intel – The semiconductor firm announced that it is cutting its workforce by 10,500 in a bid to be more efficient. The stock price fell 2% and technology stocks in general were had a difficult week.



Europe

Overview

European stocks succumbed to the weak sentiment in the US despite a strong start to the week.

Key Movers

Telecom Italia – The telecom company rose 4% on news that it is considering selling its mobile arm to private equity firms.

Nokia – It was a difficult week for the world's biggest maker of mobile phone handsets. Rumours that the company is to issue a profits warning caused the shares to drop 6%.



Ireland

Financials – The Irish market ended the week lower taking its lead from its international counterparts. There was weakness across the board on financial stocks with Anglo Irish Bank falling 5% and Irish Life and Permanent down 6%.

C&C – The drinks company bucked the trend on the Irish market last week. The share price was up 6% on the week due to the continued success of the Magners brand.

Ryanair – The stock added 2% on the back of falling oil prices.



Asia Pacific

Export stocks – Japanese export stocks declined due to concerns regarding US demand. The Hong Kong market was weaker due to the change in US interest rate expectations.

Australia – The Australian economy grew at its slowest pace for three years in the second quarter.

Bonds

Bond markets fell last week as expectations regarding a pause in US interest rates receded due to an unanticipated rise in labour cost. Eurozone bond markets were also negatively impacted by hawkish comment from ECB officials due to the emergence of positive Eurozone economic data. The Merrill Lynch > 5 year Index fell 0.2% on the week.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand robustly again in 2006, although leading indicators suggest some growth moderation in 2007. The major central banks have been focused all year on cyclical inflation pressures and strong commodity prices and short rates globally have risen further.
- The Fed paused in its policy of raising US interest rates at its last meeting, leaving them unchanged at 5.25%. Investors now believe that interest rates have peaked for this cycle. This expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation.
- The ECB increased rates to 3% last month, as fully expected by the market. Expectations of future hikes haven't changed much since then. Investors still expect rates to end this year between 3.25% and 3.5%. Bond prices have taken some comfort of late from well-behaved underlying inflation data and the thought that growth might peak in 2006.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; high oil prices and tighter liquidity conditions from higher interest rates continue to be a concern and periods of volatility are likely. The gradual ending of super-easy money policies in Japan deserves attention because of its potential negative impact on various asset classes.
- Currently, the funds are neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, positions are pretty balanced at the moment. Geographically the funds are overweight in Europe, underweight Ireland and the US and more neutral in the other regions.