



Global Overview

Equity markets pause for breath

The Dow Jones Industrial Average broke through the 12,000 level for the first time on Tuesday. However, there was profit-taking in evidence as the week progressed with European and US markets recording marginally positive returns.

Corporate earnings

The release of quarterly corporate earnings reports attracted much interest. Earnings continue to surprise on the upside with 74% of S&P 500 companies beating market expectations. Earnings growth overall in the US is now expected to be over 15%, making this the thirteenth successive quarter of double digit returns.

Economic News

In the US, conflicting economic data failed to end deliberations as to whether the US economy is heading for a soft landing. Consumer inflation for September was lower than expected but the core rate of rising prices was 2.9% higher year on year. The Federal Bank of Philadelphia's index of business conditions contracted for the second month running but much of the underlying data was perceived as positive by the market.

Oil prices

Oil prices were largely unmoved last week despite a decision by OPEC to cut output following a 25% drop in oil prices over the last two months. Commodities such as copper and tin continued to recover strongly following sharp falls over the summer.

Currencies

The US dollar eased 0.8% to \$1.26 against the euro due to mixed data on inflation which resulted in continued speculation regarding the peak in US interest rates. The yen advanced after the Russian central bank said it was adding the Japanese currency to its foreign exchange reserves. Russia's foreign exchange reserves are the third largest in the world.

Market	Index	Year to Date Return 31.12.05 to 20.10.06		1 Week Return 13.10.06 to 20.10.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	9.6	2.8	0.2	-0.7
US	NASDAQ	6.2	-0.4	-0.6	-1.5
Europe	FT/S&P Europe Ex. U.K.	14.3	14.3	0.3	0.3
Ireland	ISEQ	15.5	15.5	0.5	0.5
UK	FTSE 100	9.6	12.6	0.0	0.6
Japan	Topix	-0.3	-7.1	1.0	1.0
Hong Kong	Hang Seng	21.8	13.7	0.7	-0.2
Australia	S&P/ASX 200	12.0	8.6	0.9	1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.5	-1.5	0.0	0.0

Equities



USA

Overview

The Dow Jones Industrial Average hit its highest-ever level last week before falling back on Friday. The S&P recorded a small positive return held back by profit-taking despite positive earnings data.

Key Movers

Johnson & Johnson – The pharmaceutical company reported a 9% rise in third quarter net profits. The stock rose 6% on the week. Strong third quarter earnings from Coca-Cola led to a 6% rise in its share price.

Caterpillar – Shares in the heavy-equipment maker plummeted 14% when it delivered disappointing earnings results and weak guidance for the fourth quarter. Caterpillar is seen as a bellwether for US construction and house building.



Europe

Overview

European markets experienced a good deal of volatility last week with earnings releases dominating investor sentiment.

Key Movers

Fiat – Rumours that the Italian carmaker is to sell assets caused the share price to rise 8% despite strong denials by the company.

Stora Enso – It was a good week for the forestry and paper sector with stocks such as Stora Enso gaining 8%.

Nokia – The mobile phone maker delivered disappointing earnings results and announced a sharp fall in the average selling price of its handsets.



Ireland

C&C – The stock added over 6% following its announcement of a 77% year-on-year rise in earnings for the first half of 2006. This was fuelled by an 85% rise in sales of branded cider and a 220% rise in the cider division operating profit. The stock is now up 128% this year.

Economy – Irish GNP data released last week for the second quarter showed that growth remains robust. Consumer spending was up 6.7% year on year.



Asia Pacific

Hong Kong – The Hang Seng index rose 0.7% on the week on the back of strong demand for the IPO of Industrial & Commercial bank of China, which generated orders of more than \$500 billion.

Overall – The Australian market gained on the back of rising commodity prices. The Japanese market recovered well following a tough start to the week to record a 1% return.

Bonds

Eurozone bonds were flat on the week with Italian bonds, in particular, resilient in the face of a move by both Standard & Poor's and Fitch to downgrade the country's credit rating. Bonds markets received mixed signals from the US with the emergence of conflicting inflation and housing data. Speculation over the next interest rate move by the Federal Reserve continued as a result. The Merrill Lynch > 5 year Index was flat 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 continue to focus on cyclical inflation pressures stemming from strong growth and high oil prices.
- As expected, the Fed left rates unchanged at 5.25% at its meeting last month. Investors now believe that interest rates have peaked for this cycle. However, this expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation. Market expectations for early rate cuts may have to be pared back further, given the very cautious Fed comments in this regard.
- As expected, the ECB recently raised rates to 3.25% and confirmed market expectations of a further rise to 3.5% before year end. It gave little indication of its plans for 2007 although the tone of ECB rhetoric continues to be hawkish overall. Bonds had performed well on the back of better inflation data and some indications that global growth might peak this year, but may suffer a little from ongoing ECB hawkishness and weaker oil prices.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; tighter liquidity conditions from higher interest rates continue to be a concern and periods of volatility are likely. The sharp fall in energy prices may help underpin positive sentiment in the near term. 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 close to 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.