Weekly

investment news

11th December 2006

Global Overview

Interest Rates
Both the European Central Bank and the Bank of England met to consider interest rates last week. The upshot was a fully-expected rise of 0.25% in the eurozone, to 3.5%, and no change in the UK.

US rate expectations change
Strong employment data out of the US on Friday, showing that the economy added 132,000 jobs last month, against forecasts of 110,000, caused investors to scale back expectations of a cut in US rates early next year.

US dollar
It was a stronger week for the dollar, which added close to 1% against the euro, to close at $1.32. This was despite the decision to raise eurozone interest rates to 3.5%, thereby further narrowing the differential with US rates.

Oil prices
The oil price hovered around the $63 per barrel mark, with the president of OPEC making further comments about supporting a reduction in output by the cartel.

Market	Index	Year to Date Return 31.12.05 to 08.12.06		1 Week Return 01.12.06 to 08.12.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	12.9	1.1	0.9	1.7
US	NASDAQ	10.5	-1.1	1.0	1.8
Europe	FT/S&P Europe Ex. U.K.	15.9	15.9	2.2	2.2
Ireland	ISEQ	21.1	21.1	3.4	3.4
UK	FTSE 100	9.5	11.5	2.2	1.7
Japan	Topix	-2.0	-11.1	0.7	0.5
Hong Kong	Hang Seng	26.0	12.4	0.3	1.0
Australia	S&P/ASX 200	13.9	9.2	0.0	0.0
Bonds	Merrill Lynch Euro over 5 year Govt.	0.1	0.1	-0.5	-0.5

Equities

USA

Overview
US stocks moved modestly upwards on the week, as the economic numbers gave support to the view that the economy will achieve its hoped-for soft landing.

Key Movers
Bank of New York/Mellon Financial – Bank of New York announced plans to buy Mellon Financial in a $16.5 billion deal in a move that would form the world's largest financial assets service company. Shares in BoNY rose over 10%, while Mellon added over 5%.

Ford – There was a further slide of over 10% in Ford's share price after the sale of $4.5 billion worth of bonds that could dilute existing shareholders in the future.

Pfizer – After a positive week the week before, the drugmaker slid 10% following the suspension of development of a cholesterol drug due to serious problems at the testing stage.

Europe

Overview

European markets had a good week, with M&A activity in the tobacco sector and positive news from the financial sector.

Key Movers

Gallaher Group – The UK tobacco group said it had received an approach, thought to have come from Japan Tobacco. The stock closed nearly 25% up on the week. Japan Tobacco declined to comment.

Altadis – The French/Spanish tobacco group benefited from the speculation in the sector, adding nearly 9% over the week.

Thyssen Krupp – The German steelmaker gained over 10% on the week after some strong reviews from brokers in the light of a strong set of results at the tail end of the previous week.

Ireland

Anglo Irish Bank – Anglo added over 8% on the week after reporting better-than-expected full-year pre-tax profits and a confident outlook for 2007 and beyond. The company reported a 38% rise in profit before tax, to €850 million.

AIB – AIB disappointed the market with an announcement that it is on track for earnings growth of more than 20% this year. The stock initially fell as investors had been hoping for an upgrade, as was the case with Anglo and Bank of Ireland.

Asia Pacific

Japan – The Japanese market made modest gains on the week, helped by bid speculation and a slightly weaker yen.

Other markets – Singapore hit an all-time high on Thursday before easing back, helped by a 3% jump in Keppel, the oil rig builder, which said it had won a $317 million contract. Hong Kong and Australia were flat.

Bonds

Eurozone bonds fell in a week that included interest rate decisions in both the eurozone and the UK. The stronger-than-expected employment data in the US on Friday dashed hopes that the Fed might cut US rates early next year, causing bonds to weaken on both sides of the Atlantic. The Merrill Lynch >5 year bond index lost 0.5% over the week.

Global Outlook

- Growth expectations remain at high levels 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 last meeting in October. 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. In recent weeks investors have begun to factor in rate cuts in 2007, but Fed comments have continued to be quite cautious in that regard.
- The ECB, as fully expected, raised rates to 3.5% at its meeting last week. The tone of ECB rhetoric continued to be hawkish overall. The new set of ECB economic forecasts, released alongside the interest rate decision, suggest lower inflation risks going into the next year and this may set the stage for policy change over the next few months, but that remains speculation at this stage. Bond markets will continue to focus on any data that could trigger such a pause or peak in the ECB hike cycle.
- 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. In the recent period, positive sentiment towards equities has been boosted by the surge in merger & acquisition activity in Europe and the US.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight industrials but other positions continue to be pretty balanced. Geographically, the funds are overweight in Europe and the Pacific, underweight Ireland and the US and more neutral in the other regions.

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