



In this, our first investment news bulletin of the new year, we are taking the opportunity to look back at 2006 as a whole. We would also like to wish all of our readers a very happy and prosperous new year.

Global Overview

Global equity markets experienced excellent returns in 2006 with most markets recording double-digit growth. The key factor was consistently better-than-expected earnings, driven by the solid economic background, particularly in the US and the Far East. Expectations of a soft landing for the US economy in 2007 underpinned a strong rally as the year drew to a close.

There were superb returns on European equity markets despite rising interest rates. The ECB implemented numerous interest rate hikes over the period, bringing rates to 3.5%. In the US, the Federal Reserve raised rates until late June to finish the period at 5.25%. In Asia, exceptional growth in China continued to attract much attention with strong Asian demand for commodities helping mining and resource stocks to out-perform globally. The Bank of Japan ended its ultra-loose monetary policy in 2006. However, as the period progressed, doubts about the strength of the Japanese economic recovery caused the stock market to falter. Globally, concerns over rising interest rates and inflation had a negative impact on equity markets in May/June. However, dovish remarks from US Federal Reserve Chairman, Ben Bernanke, at the end of July helped to assuage investor worries and markets rallied for the remainder of the year.

Oil prices hit a high of almost \$80 per barrel on the outbreak of hostilities between Israel and Hezbollah. Prices eased substantially thereafter, helped by a ceasefire in the region and expectations of a slowdown in global growth, to finish the period at \$61. On currency markets, the dollar declined substantially against most major currencies in 2006 as investor attention turned to the peak in the US interest rate cycle. At period end, the €/£ rate was 1.32.

Eurozone bonds endured a rocky ride during 2006 due to a combination of stronger eurozone economic news, increased bond issuance and surging equity markets. Also a concern was continued uncertainty regarding the pace of Eurozone interest rate increases. Sentiment improved in the latter part of the year, helped by the sharp decline in the oil price from its August high and as it became generally accepted that the US has reached the top of its interest rate cycle. However, prices slipped again in December as optimism regarding equities escalated. The Merrill Lynch EMU Government >5 Year Bond Index finished the period down 1.8%.

World Stock Market Performance 31st December 2005 to 31st December 2006

Market	Index	Local Currency (% Return)	Euro (% Return)
Ireland	ISEQ	27.8	27.8
Europe	FT/S&P Europe Ex. U.K.	19.1	19.1
U.K.	FTSE 100	10.7	13.1
U.S.	S&P 500	13.6	1.9
Japan	Topix	1.9	-9.4
Hong Kong	Hang Seng	34.2	20.0
Australia	S&P/ASX 200	19.0	14.8
Euro Bonds	Merrill Lynch Euro over 5 year	-1.8	-1.8

Global Outlook

- Leading indicators continue to suggest some growth moderation in 2007 from the robust levels of 2006. The major central banks will likely remain focused on the cyclical inflation pressures stemming from strong growth.
- As expected, the Fed left rates unchanged at 5.25% at its meeting in mid-December. In recent months investors have begun to factor in a modest easing in rates during 2007, but the latest official Fed comment continued to give few clues in that regard.
- The ECB, as fully expected, raised rates to 3.5% at its meeting in December. The new set of ECB economic forecasts, released alongside the interest rate decision, suggest lower inflation risks going into the next year, but bond markets have been more focused on the hawkish tone of ECB rhetoric.
- 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 other regions.