

Global Overview

Equity markets hit fresh highs

Most equity markets continued to rise last week, as investor sentiment got a boost from further improvement in economic data worldwide. Many markets are now at highs not seen since last October.

US housing data

The housing market in the US, one of the main factors in the major economic downturn, has continued to show signs of stabilisation and recovery over the past few months. This continued in July, as data was released which showed that sales of existing homes jumped by 7.2% over the month, while housing starts rose for the fifth consecutive month.

Eurozone data

German services and French manufacturing activity unexpectedly expanded in August, signalling a pick-up in demand across the region and helping it out of the worst recession in decades.

Japanese GDP

The Japanese economy recorded a 3.7% expansion in Q2, as government measures helped the economy on the road to recovery following a 11.7% contraction in Q1.

Commodities

Oil climbed 10% to a ten-month high as speculation rose that the global recession is easing, sparking demand for most commodities. Oil was also helped by a drop in stockpiles and a strengthening of the euro against the dollar. Oil finished the week at \$74 a barrel, while the €/£ rate ended the week at 1.43.

	Index	Year to Date Return 31.12.08 to 21.08.09		1 Week Return 14.08.09 to 21.08.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	13.6	10.7	2.2	1.5
US	NASDAQ	28.1	24.9	1.8	1.1
Europe	FT/S&P Europe Ex. U.K.	16.5	16.5	3.1	3.1
Ireland	ISEQ	27.8	27.8	1.4	1.4
UK	FTSE 100	9.4	20.6	2.9	2.0
Japan	Topix	10.3	3.2	-2.7	-3.1
Hong Kong	Hang Seng	40.4	36.8	-3.3	-3.9
Australia	S&P/ASX 200	15.3	33.1	-3.8	-4.1
Bonds	Merrill Lynch Euro over 5 year Govt.	3.4	3.4	0.3	0.3

Global Equities



United States

Overview

US equity markets had a strong week, as housing starts, existing sales and a further improvement in the lead economic indicators helped investor optimism. Markets finished the week at a ten-month high.

AIG – The troubled financial institution saw a 35% jump in its share price after its new Chief Executive said that it would rebuild business and won't be rushed into selling assets at unfavourable prices.

ExxonMobil – The oil company was one of the biggest gainers on the Dow last week, as oil rallied to a fresh high of \$74 a barrel. ExxonMobil gained 2.5% over the week.

Gap – The clothing company saw its shares jump 3% on Friday, after better-than-expected Q2 earnings. Its share price has gained 45% this year.



Europe

Overview

Eurozone stocks resumed their upward trend, following more upbeat data from the region's two largest economies, Germany and France.

Holcim – The cement maker rose by almost 12% after it announced expectation-beating results for Q2, helped mainly by successful cost cutting over the period. It also gave a bright outlook, as it expects stimulus measures in Europe and the US to drive demand and growth higher.



Ireland

Overview

The Irish market gained 1.4% during the week. This week sees many companies release earnings results and outlooks for the rest of 2009. There was also lots of focus on NAMA as the main opposition party said it would vote against it in the Dáil.

Kingspan – The building materials group reported a drop in revenue in the first half of 2009, but nonetheless came in better than investors had expected. Kingspan believes that demand for most product categories has stabilised in recent months, but any marked improvement in activity is unlikely in the short-term. Its shares finished yesterday over 13% higher.



Asia Pacific

Overview

Once again, China dictated the direction of markets last week. Concerns that China will rein in lending are still evident and caused markets to finish the week sharply down. Investors fear that any tightening in lending will decelerate the rate of growth. On an upbeat note, however, there was the improvement in Japanese GDP in Q2. The economy expanded by 3.7%, versus the 11.7% contraction in Q1.

Bonds

Eurozone bonds finished the week relatively unchanged, despite a plethora of economic data suggesting the recession is coming to an end. Most notable data was the expansion in German services and French manufacturing activity. The Merrill Lynch over 5 year government bond index rose by 0.3%.

Global Outlook

- Economic data has improved after being in freefall earlier this year and GDP forecasts are currently being revised higher; indeed France, Germany and Japan have all recorded positive growth in the last quarter. The strains within the financial system have eased considerably although outside of China, bank lending is still restricted and this remains a concern.
- Part of the improvement can be attributed to the unprecedented scale and scope of policy initiatives to save the banking system and offset the collapse in private sector demand. Because of the scale of the global crisis, the ultimate success of these efforts (or their unintended consequences) is still far from certain.
- Short rates have likely reached their cyclical lows in the major economies, at somewhere between 0% and 1%. The major central banks continue to walk a fine line between committing to keep policy as easy as necessary, while continuously talking about exit strategies from their various initiatives, including their partially successful quantitative easing (QE) policies. Investors' expectations regarding how soon short rates will be increased have gyrated over the past few weeks, most recently being scaled back significantly. Rates should remain very low for some time to come.
- Inflation data in most of the major economies remains weak at both the consumer and producer level. That may continue to provide some support to bonds, although the exit from emergency short rates (whenever that comes) is unlikely to leave bond markets unaffected. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively, helped by considerably-improved funding positions. In the short-term, the scope for further narrowing must be limited.
- Developed equity markets have been boosted by recent earnings' data and some better economic data. Globally, markets have made a new recent high, although the upward momentum seems to be stalling somewhat. China's equity market surge had been a positive for sentiment but its bubble-like behaviour has recently become a concern. It is noteworthy also that final demand in Europe and the US remains weak and that many of the earnings from those regions (outside of financials) have been boosted by cost control. Market sentiment seems to have swung to an extremely bullish stance in the past couple of weeks, so we could easily see some consolidation in the near term. Seasonal concerns could also be a factor in markets over the next few weeks.
- Currently, the funds are neutral to overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight energy. Geographically, the funds have an underweight position in Ireland and the US, are closer to neutral in Japan and are overweight in the UK, the Pacific Basin (though less than previously) and Europe.

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