

## Global Overview

### Markets relatively unchanged

European and US markets finished the week relatively unchanged as investors focussed on the Federal Reserve meeting taking place this week. Investors are expecting an announcement about the latest asset-purchase programme, known as quantitative easing (QE), but estimates as to its size vary considerably.

### US economic data

In the US, early GDP estimates for Q3 confirmed that the US grew at an annual rate of 2%, matching economists' forecasts. Further to this, expectations-beating reports covering durable goods orders, Chicago Purchasing Managers Index and jobless claims gave sentiment a boost.

### Japanese exports

The US dollar fell to a new 15-year low against the yen, on speculation that the Fed will announce a further QE programme. This is putting strain on the export-dependent economy, and Japan's Finance Minister commented that the government is "watching the currency market with great interest and will take 'bold' action if necessary".

### Eurozone data

Inflation in the region unexpectedly rose by 1.9% in October, compared with one year earlier, while the unemployment rate continues to hover around 10%, the highest level since mid-1998.

### Oil & dollar

Oil prices retreated slightly during the week as the dollar rose against the euro, which reduces the appeal of commodities as an alternative asset. The expectation of QE caused the dollar to weaken over the past few weeks but it reversed that trend last week as investors focussed on the high budget deficits in the eurozone. Oil finished at \$81 a barrel, while the €/£ rate ended the week at 1.39, down 0.1%.

	Index	Year to Date Return 31.12.09 to 29.10.10		1 Week Return 22.10.10 to 29.10.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.1	10.6	-0.3	0.1
US	S&P 500	6.1	9.3	0.0	0.1
US	NASDAQ	10.5	13.8	1.1	1.2
Europe	FT/S&P Europe Ex. U.K.	3.3	3.3	-0.9	-0.9
Ireland	ISEQ	-9.8	-9.8	-1.3	-1.3
UK	FTSE 100	4.8	7.1	-1.2	1.0
Japan	Topix	-10.7	6.5	-1.7	-0.5
Hong Kong	Hang Seng	5.6	8.8	-1.8	-1.6
Australia	S&P/ASX 200	-4.3	7.7	0.3	0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	6.2	6.2	-0.5	-0.5

## Global Equities



### United States

#### Overview

The S&P 500 Index finished the week relatively flat, but still added to September's gains over the full month. Investor sentiment this week will be dictated by the outcome of the Fed's meeting on the 2nd and 3rd of November.

**Corporate earnings results** – Of the 335 S&P 500 companies that have reported third-quarter earnings so far, 75% have exceeded estimates. Microsoft gained 5% on the week, after it reported a 51% gain in profit, as corporate customers step up computer and hardware purchases. Elsewhere, recruitment website company Monster surged after beating earnings-estimates and raising its 2010 earnings forecast.



## Europe

### Overview

European markets finished the week in negative territory, following disappointing earnings from ABB and Metso.

**Banks** – Bank shares fell during the week after UBS announced an investment-banking loss, surprising analysts. UBS shares were 4% lower over the week. Further to this, Piraeus Bank of Greece announced a rights issue to improve its capital, causing shares to fall over 7%.



## Ireland

### Overview

The Irish market fell by 1.3%, with Bank of Ireland and Allied Irish Banks falling heavily after comments from the Governor of the Central Bank saying “tougher action is required to reduce the budget deficit”.

**Elan** – Elan reported Q3 results showing a 3% fall in revenue, year-on-year, but which were broadly in line with expectations. Tysabri, its main drug, disappointed as revenues were 5% behind forecasts.



## Asia Pacific

### Overview

Asian markets finished the week lower on concern that earnings growth will slow and fears that the Fed's QE programme, which investors are expecting, may disappoint. The strengthening yen against the dollar also weighed on markets.

## Bonds

Eurozone bond markets retreated over the week as inflation rose and Germany called for a rewriting of EU treaties to create a permanent debt-crisis mechanism, which would involve bondholder haircuts. Greek and Irish bonds fell, in part due to the latter point. The Merrill Lynch over 5 year government bond index fell by 0.5% over the week.

## Global Outlook

- Global growth forecasts remain quite healthy although they are being revised lower rather than higher at the moment. Asian economies remain reasonably strong, driving export demand from some European economies; the global economy is still rather lopsided and the underlying strength of private sector demand in Europe and the US is still a key concern. Weak bank lending and financial market volatility add to downside risks to these areas. Inflation pressures globally remain modest, reflecting weaker data in developed economies and stronger readings in emerging economies and Asia. Indeed for Europe and the US, further disinflation is probably a greater near-term concern than inflation.
- Central banks continue to set interest rates at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Canada, India and China. In the US and UK, 2011 rate expectations continue to make new cycle lows, although they have risen by 0.4% from their cycle lows in the eurozone due to worrying ECB rhetoric which suggests some anxiety about normalising short-term interest rates. This seems premature at this stage and we would expect rates to continue to remain low for some time to come.
- Low short-term interest rates and disinflation concerns have been a support to major bond markets such as Germany, the US and Japan; long-term interest rates have recently fallen to record, or near record levels in the US and Japan, although German rates have risen 0.4% from earlier lows. Irish bond spreads versus Germany have achieved new wides despite the recent banking announcements, the cancelling of debt auctions and the prospect of a comprehensive budgetary announcement in the next couple of weeks. Ireland has certainly funded well this year and has a large cash buffer. However, the risk remains that investors continue to probe the credibility of the rescue mechanism in place for eurozone countries; if so, a rocky road still lies ahead for Irish bonds.
- Global equities are 5% ahead year to date but it has been a period of very high volatility with several large gains and falls over that time. Partly because of this, investors' convictions remain low and holding periods are quite short. Low interest rates certainly provide some forward support to risk markets and earnings' expectations have been managed well by companies. Additionally, investors seem to believe that the Fed's further quantitative easing policy (“QE2”), will underpin risk assets. However, sentiment has already rebounded meaning that the fuel for further gains may be limited, especially if this week's QE2 announcement disappoints. Currently, we are waiting to see how the balance of these forces will develop in the short-term.
- At present, the funds are neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are now reasonably balanced. Geographically, the funds are underweight in Ireland, the UK and the US, overweight in Europe and the Pacific Basin and closer to neutral in other markets.

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