

# Market Review

July 2010



# MARKET SIGNPOSTS

## The Euro Recovered Against the Dollar



## Markets In July

	July	Year to Date
Ireland	1.3	1.3
UK	6.9	6.9
US	7.0	7.0
NASDAQ	6.9	6.9
Europe	5.5	5.5
Japan	1.3	1.3
Pacific	5.5	5.5
World	5.9	5.9
Bonds	1.3	4.6

Oil	3.7	-13.2
Gold	-5.3	10.0
Commodity	8.8	-3.6

## VIX – Risk Aversion Eased



# ASSET WATCH

- **Equities**

- Equity markets continue to price in a recovery although lower returns are expected in 2010 than seen in 2009.

- **Bonds**

- The outlook for bonds for 2010 is mixed. In line with our house view of no change in rates until the first quarter 2011. We expect that bonds would return 3% in 2010.

- **Property**

- Irish Commercial Property Market continues to suffer illiquidity, with uncertainty around NAMA a constraint in the short term. Strong value correction is attracting overseas investor interest. Economic weakness has and is set to continue to hit rental values. UK property markets are seeing price stability at the prime end but Continental European markets are generally behind the UK in the Cycle.

- **Cash**

- ECB is likely to remain on hold until the first quarter of 2011. As a result cash is forecasted to return circa 1.1% in 2010.



# US Earnings

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<b>S&amp;P 500 1Q10</b>	<b>Number</b>	<b>Percentage</b>
(Based on 337 companies - 67%)		
<b>Earnings Per Share</b>		
Beat Expectations	252	75%
On Target	34	10%
Missed Expectations	50	15%

- Companies have reported earnings that are 13.2% ahead of expectations, and 7.4% when the financial sector is excluded.
- The consumer discretionary sector and the industrial stocks also performed well.
- 66% of companies reported revenues that were ahead of expectations and in aggregate companies are reporting revenues that are 1% ahead of expectations.
- The guidance for the 2H10 was revised upwards, although risks continue for expectations for 2011.



# US ECONOMIC REVIEW

## • Economy

- The preliminary estimate for US GDP was 2.4% in the second quarter.
- Consumption and net trade was weaker than expected, but business investment and inventories has outperformed.
- Economic data in the US has been mixed raise concerns about the sustainability of the recovery.

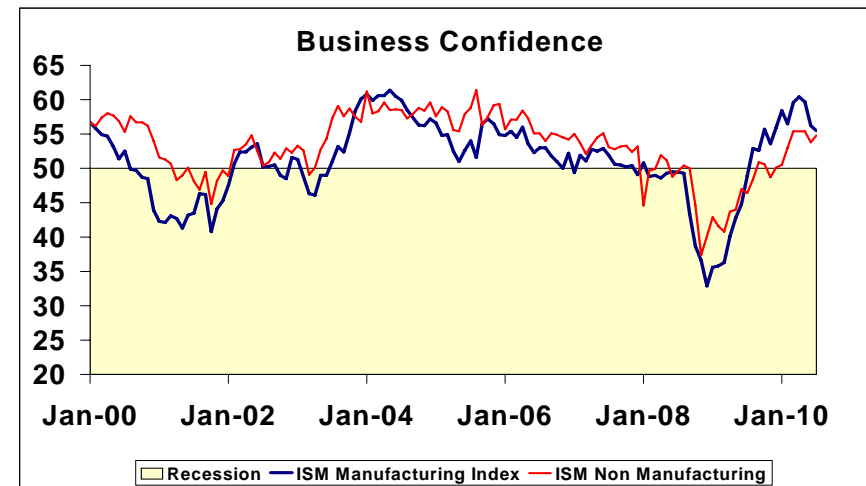
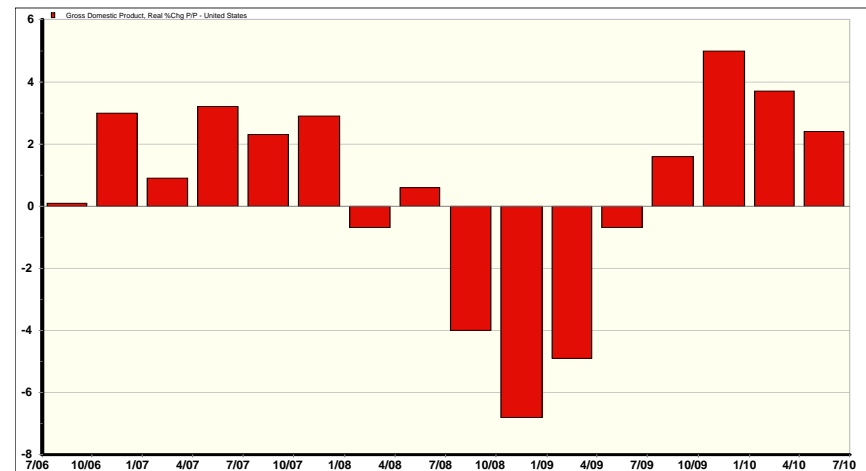
## • Interest Rates

- The Fed left rates unchanged at a record low level of 0-0.25% but lowered its growth forecasts.
- Headline Inflation fell to 1.1% in June.

## • Stock Stories

- Goldman Sachs (+15%) agreed to settle the fraud action against it by the SEC and paid a fine of €550mln, less than had been expected.

## US GDP



# EUROZONE ECONOMIC REVIEW

## • Economy

- Sentiment towards the Eurozone economy improved in July.
- The results of the banking stress tests show only seven banks failed the requirement.
- Peripheral Government showed that austerity measures are on track.
- The Germany economy is performing better than expected.

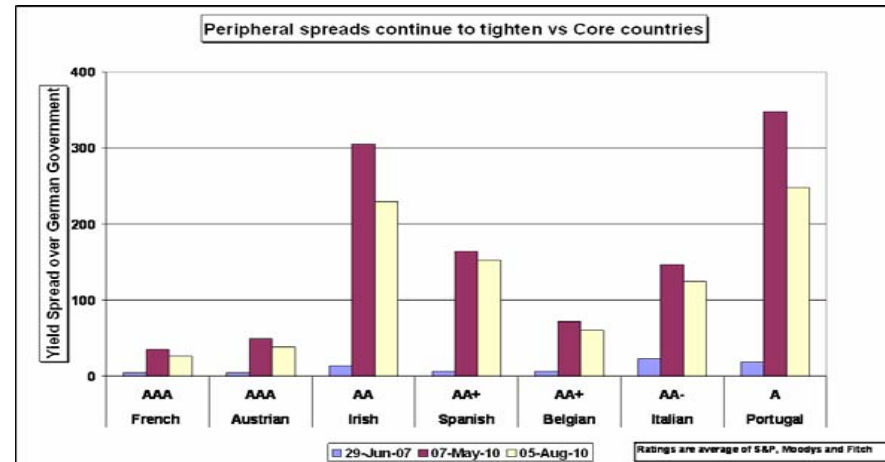
## • Interest Rates

- ECB left interest rates on hold and removed liquidity from the system through its sterilisation programmes.
- CPI increased to 1.7% YoY in July.

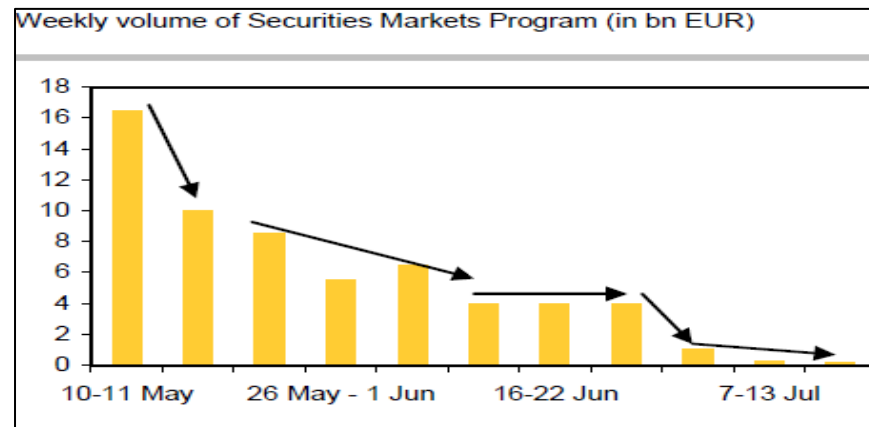
## – Stock Stories

- Societe Generale (+29%)/Credit Agricole (22%) benefited from the results of the stress tests.

## Peripheral spreads tighten further



## ECB Bond buying slowing further



# UK ECONOMIC REVIEW

## • Economy

- The UK Economy grew by 1.1% in the second quarter.
- The growth was broad based as services, industry, construction and agriculture all grew.
- The leading indicators are pointing to a weaker outlook.
- House prices fell in July as the annual rate of house price growth continues to ease.

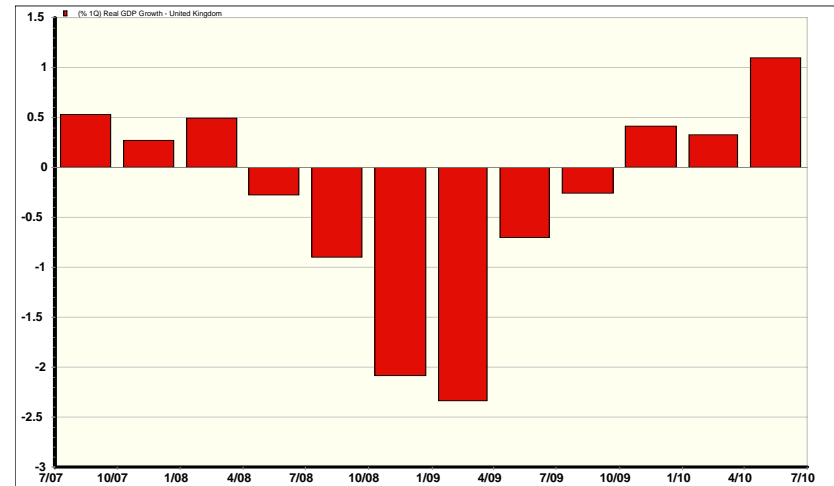
## • Interest Rates

- The Bank of England left rates unchanged at 0.5%.
- Headline inflation eased to 3.2%, while core increased to 3.1% YoY.

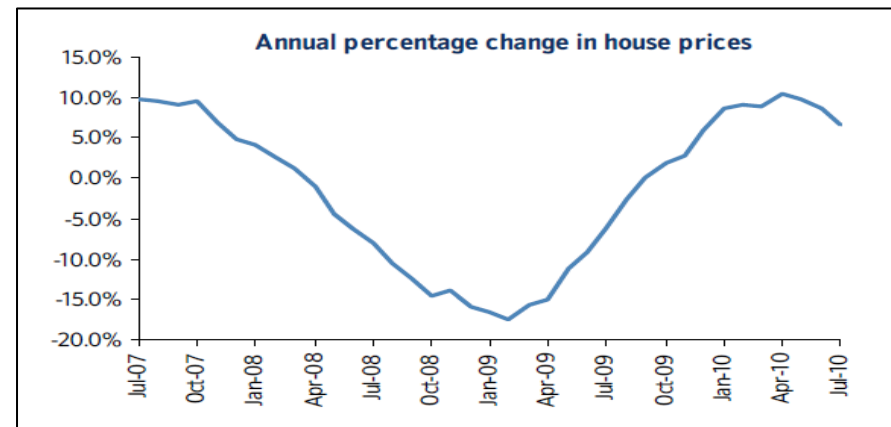
## • Stock Stories

- EasyJet (+1%) underperformed after the CEO admitted that there were significant operational issues to be addressed.

UK GDP



UK House Prices



# ASIAN ECONOMIC REVIEW

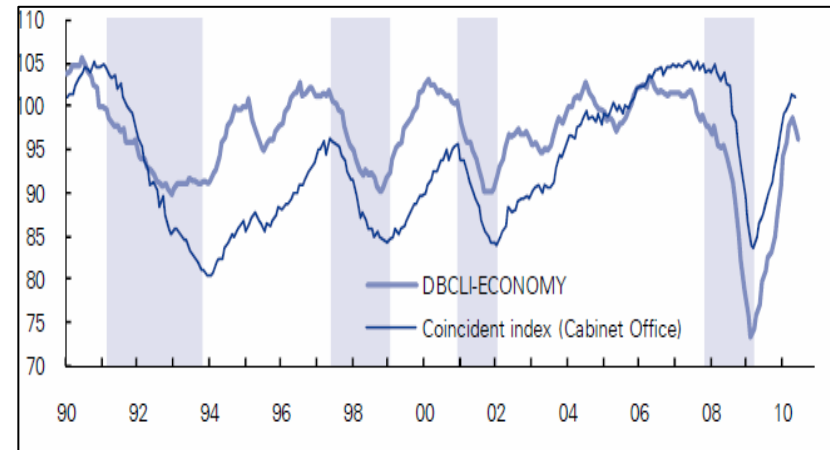
## • Japanese Economy

- Leading indicators are pointing to slower economic growth in Japan.
- CPI continued to gradually ease as core CPI fell 1.0% YoY in June after a 1.1% drop in May.

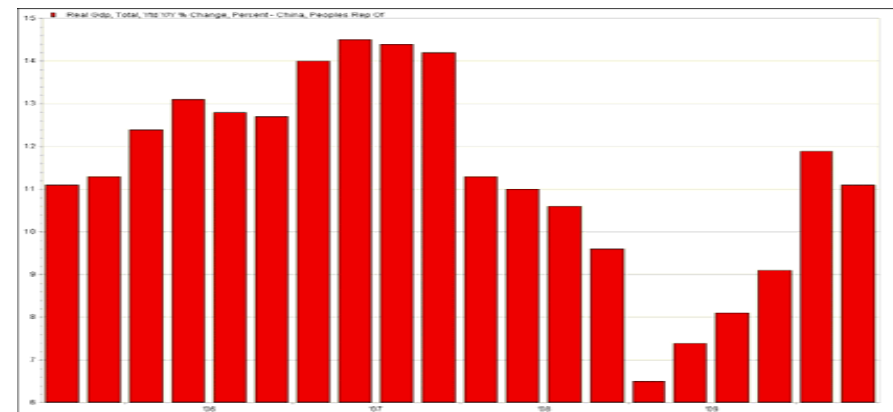
## • Chinese Economy

- Chinese growth is moderating according to the latest PMI reading.

Japanese Business Confidence



Chinese GDP



Asia Pacific Ex Japan	July
Hong Kong	6.1
Taiwan	9.0
Korea	4.3
Singapore	5.5
Australia	4.5
New Zealand	1.5



# IRELAND ECONOMIC REVIEW

## • Economy

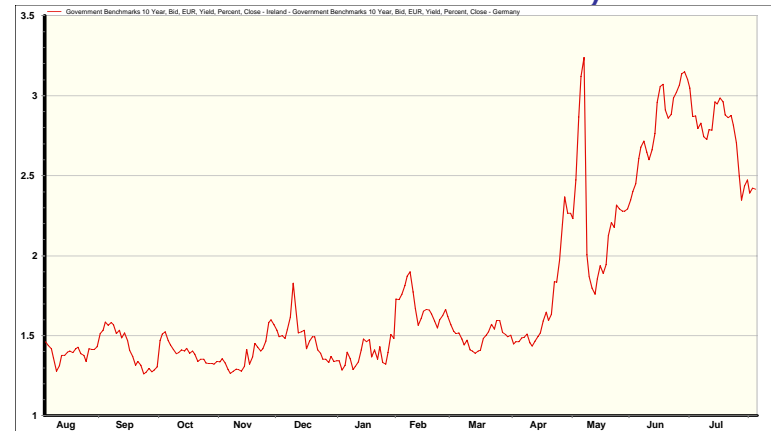
- The Manufacturing and Services PMI are showing that these sectors are losing momentum.
- House prices fell by another 1.7% in the second quarter, according to the ESRI/PTSB index.
- The Live Register Increased by 8,500 in July .
- Retail Sales increased by 0.1% in May.
- CPI is down -0.9% YoY.

## • Stock Stories

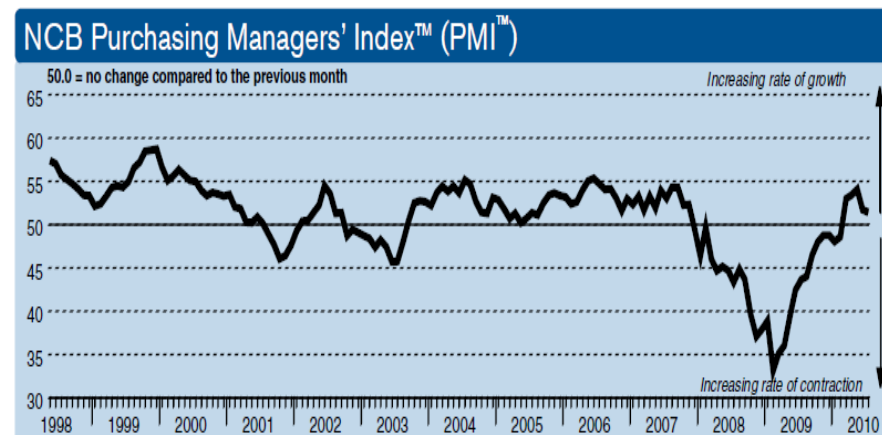
- Bank of Ireland (+27%) recovered ground after completing its capital raising and also benefited from the results of the stress tests.



## Spread on Irish 10 Year Government Bond over Germany.



## Irish Manufacturing PMI



# Appendix



# Currency Positions

Currency	New Active
Euro	-3.86%
US \$	-3.50%

Norway Kr	0.31%
Australia \$	0.35%
Sweden Kr	0.62%
UK £	0.68%
Japan Yen	1.35%
Switz Fr	4.05%

As of 4<sup>th</sup> August 2010

# Country Positions

COUNTRY	New Months Weights
France	4.75%
Germany	3.07%
Netherlands	2.39%
Italy	2.26%
Sweden	0.77%
Korea	0.52%
Hong Kong	0.05%

Belgium	-0.10%
Singapore	-0.40%
United Kingdom	-0.43%
Taiwan	-0.48%
Japan	-0.60%
Spain	-1.42%
Switzerland	-2.55%
United States	-2.84%

As of 1<sup>st</sup> August 2010



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