

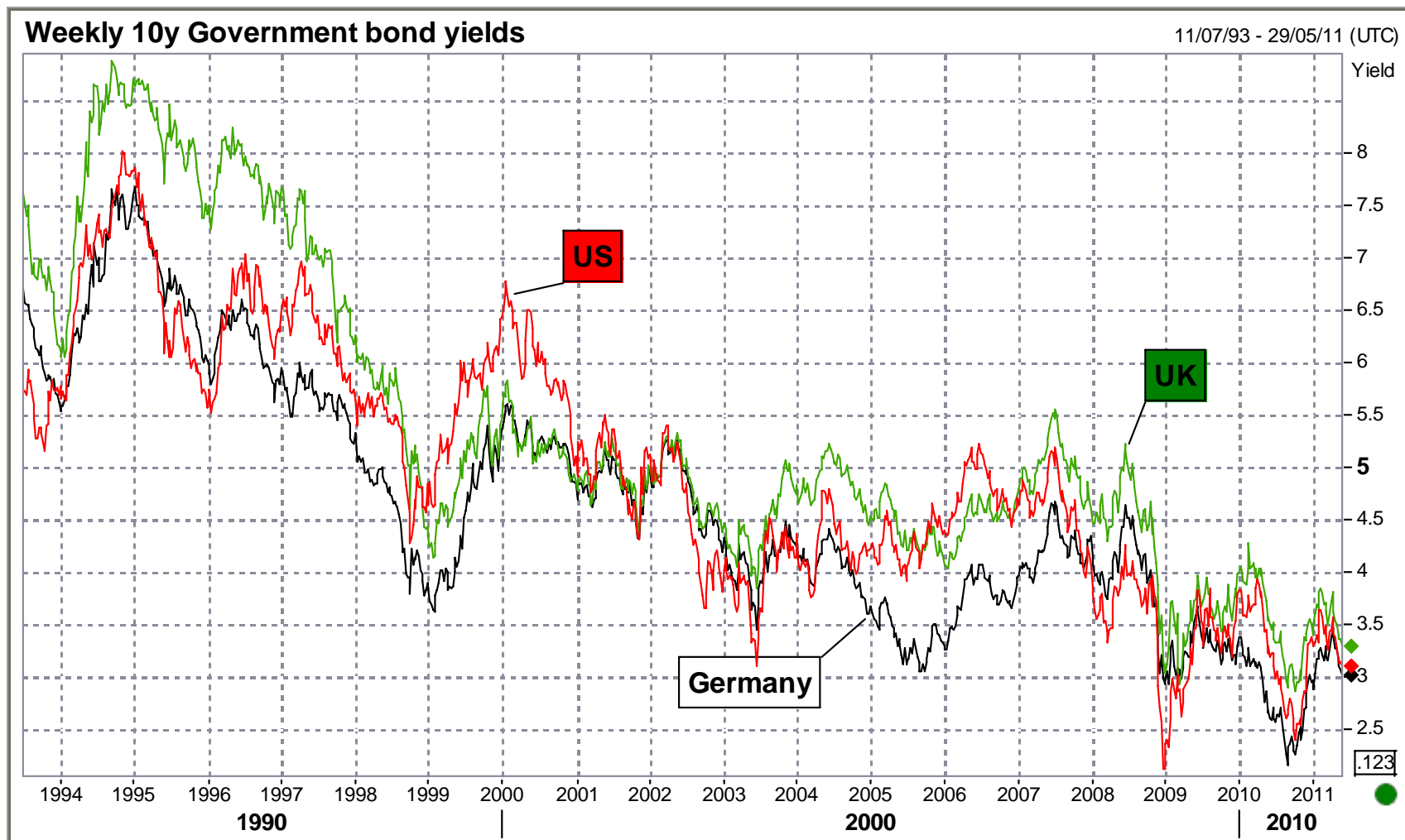
# Annual Conference 2011



## Bond Markets – Where to from here?

**Max Plapp**  
**Head of Fixed Income,**  
**Irish Life Investment Managers**

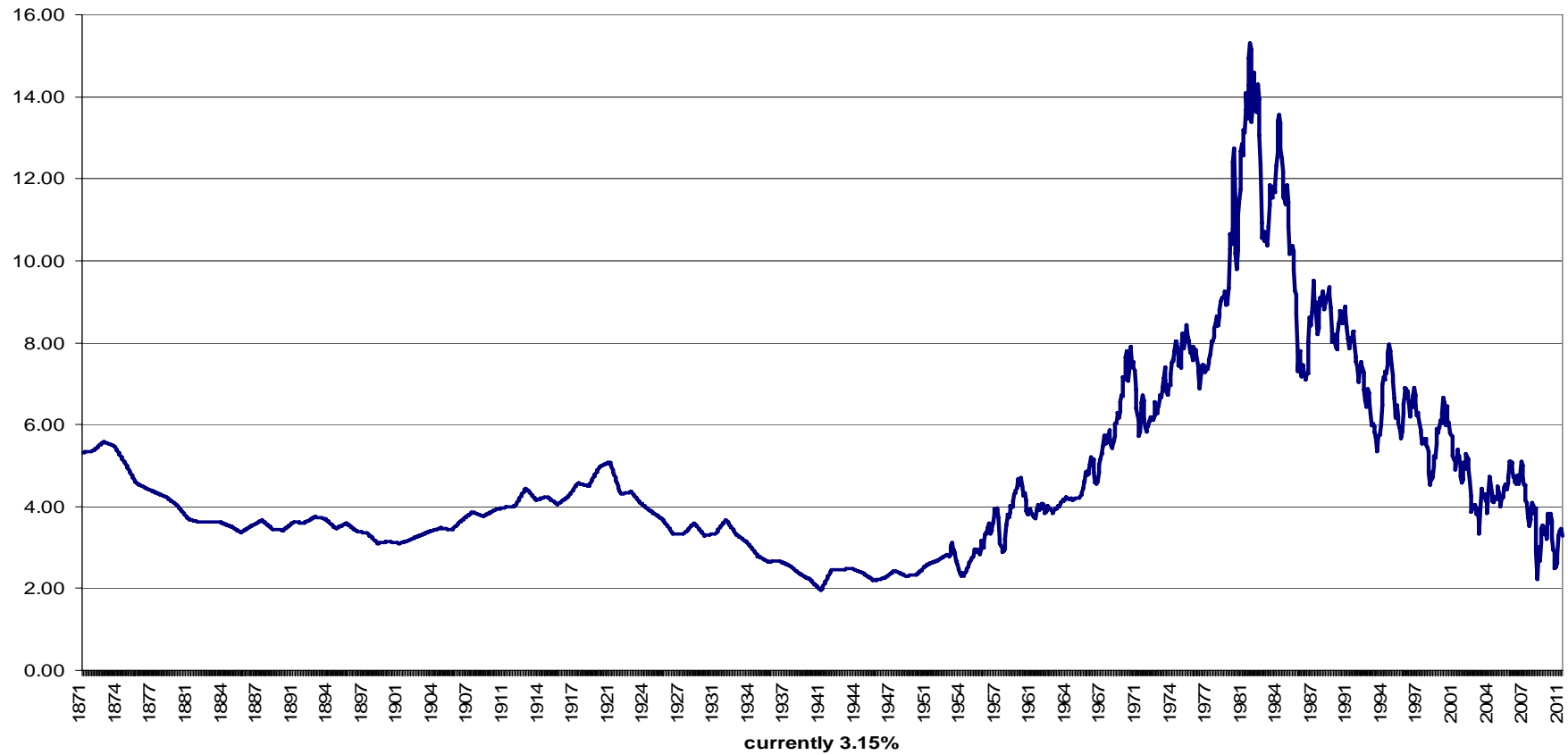
# AAA Government bond yields close to 20 year lows



Source: Reuters

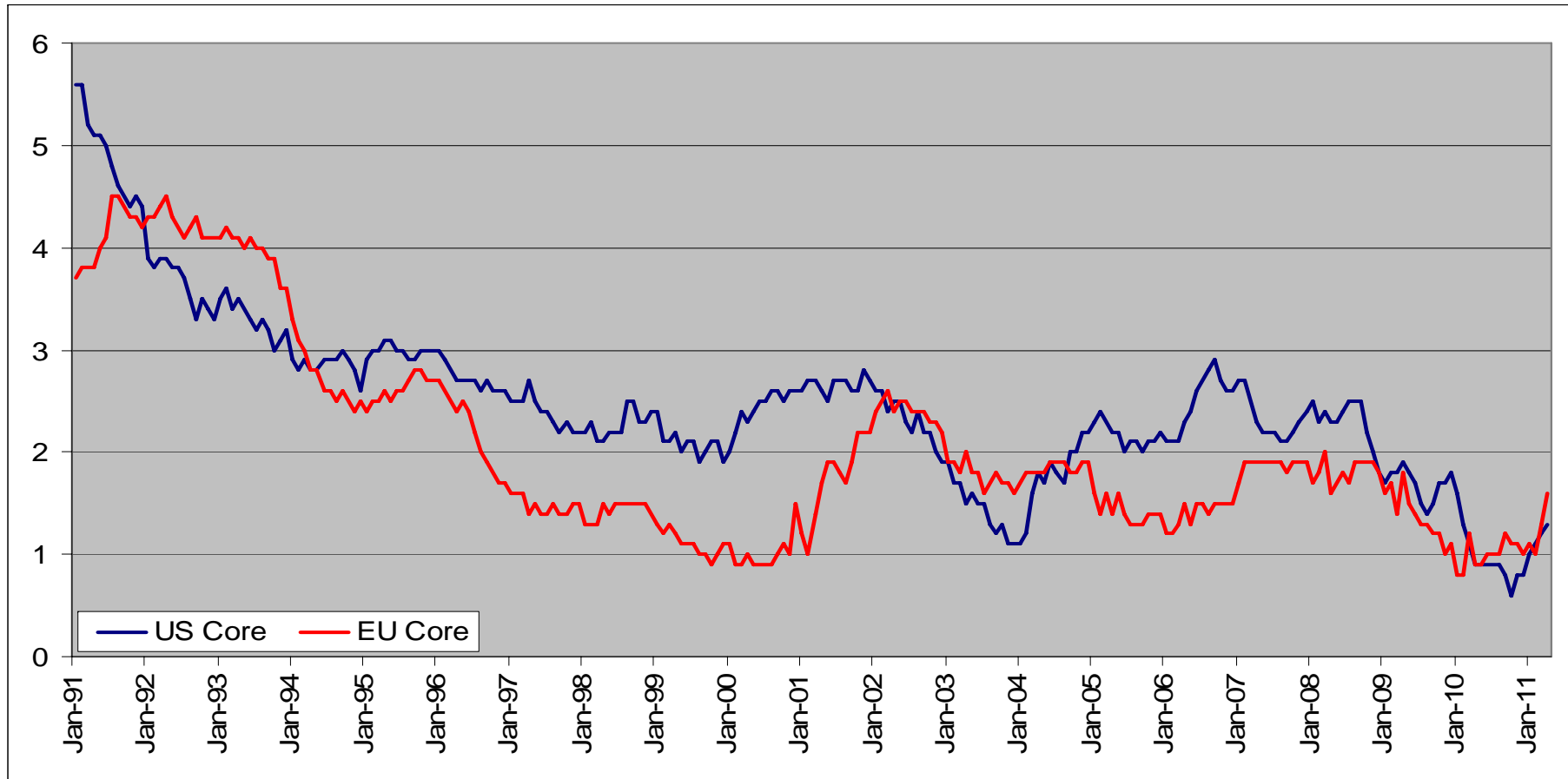
# Yields not unusual in a historic context

US 10yr Government yield



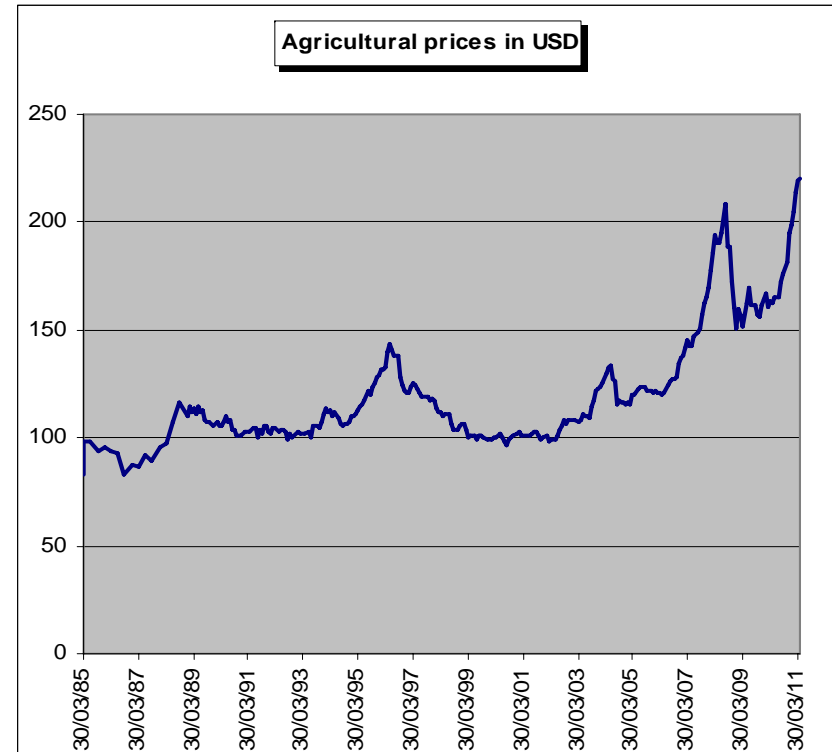
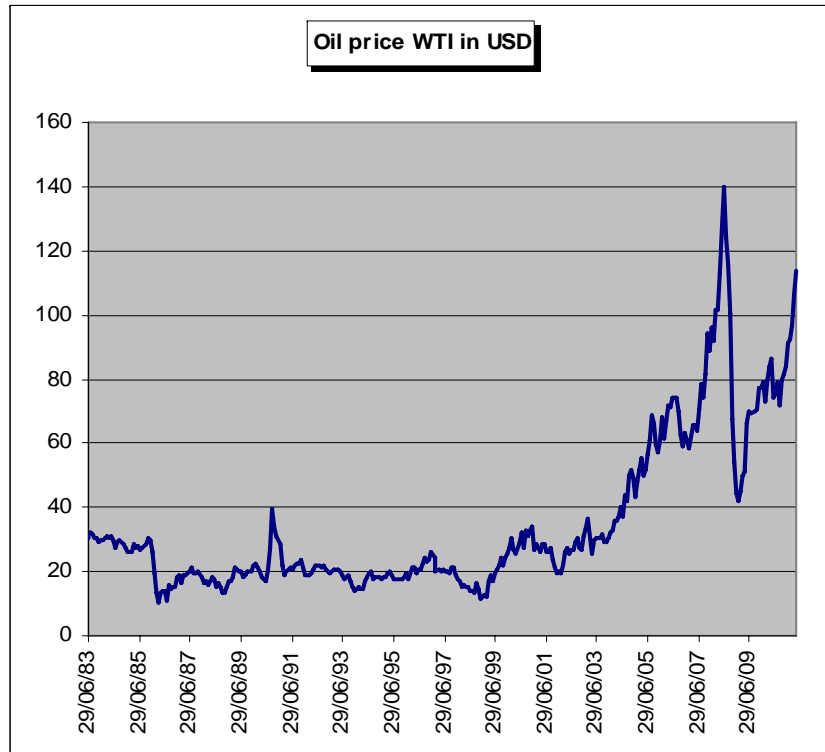
Source: Shiller/Bloomberg

# Core inflation well behaved



Source: Bloomberg

# Risks to benign inflation

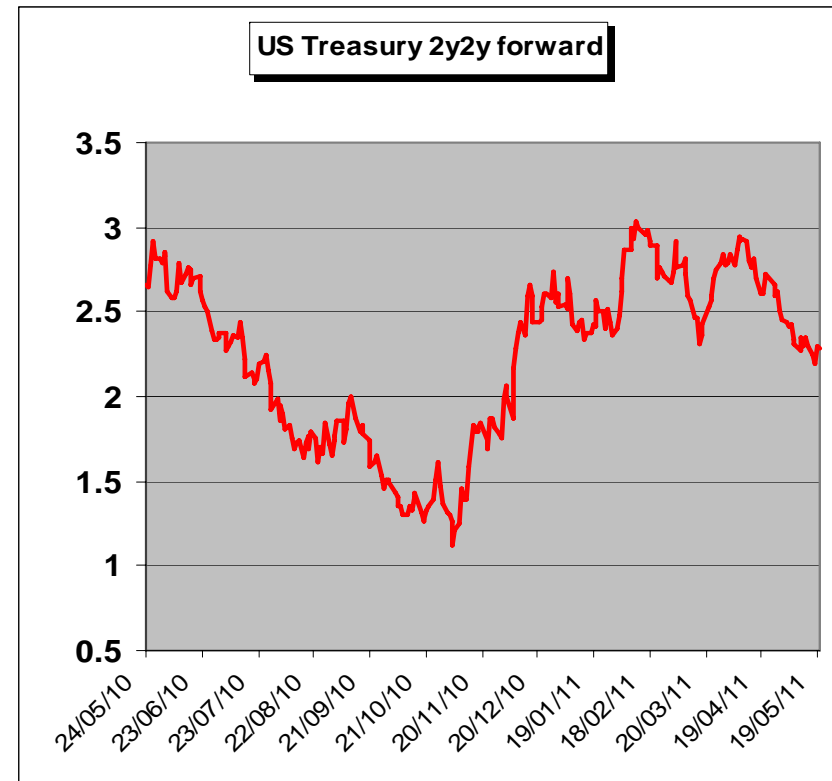


Source: Bloomberg

➤ Chinese five year plan: labour costs to rise by 7% p.a. to stimulate consumption

# US Interest Rates

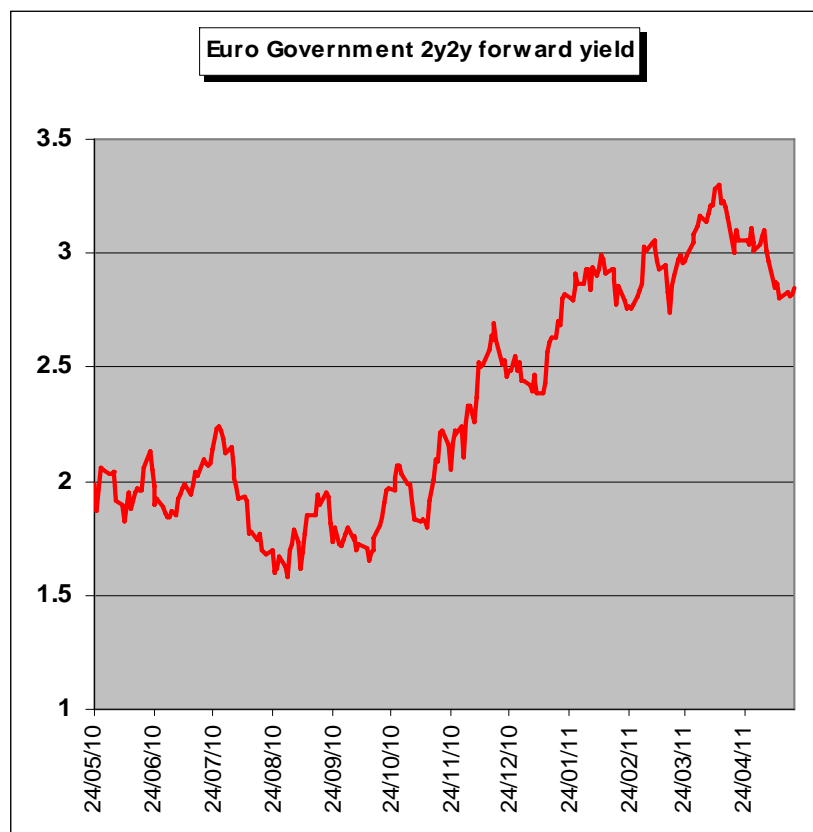
- US Fed rate at 0% to 0.25%
- Headline CPI: 3.2%
- Current 2-year yield at 0.5%
- 10-year Treasury yield at 3.1%
- Target for 10 year yield: 3.75%



Source: Barclays Capital

# Euro Interest Rates

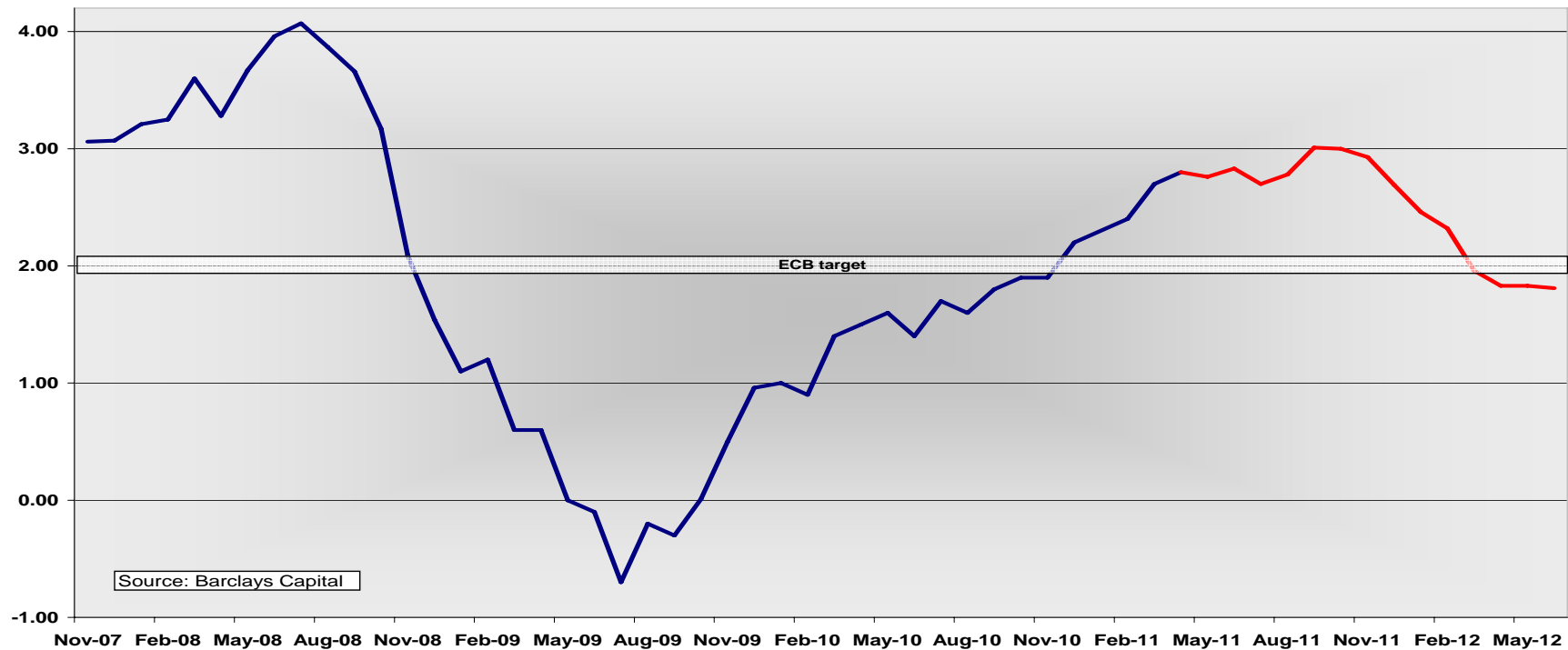
- Headline CPI at 2.8%
- ECB rate at 1.25%
- Market expects ECB to reach 2% by year end
- 2-year bond yield at 1.7%
- 10-year bond yield at 3.02%
- Target for 10-year bond yield: 3.5%/3.75%



Source: Barclays Capital

# Eurozone Inflation Outlook

Eurozone Inflation and inflation expectations



Source: Barclays Capital

- Inflation expected to drop back in 2012 from base effects
- ECB rate hike window will close in Q2-2012

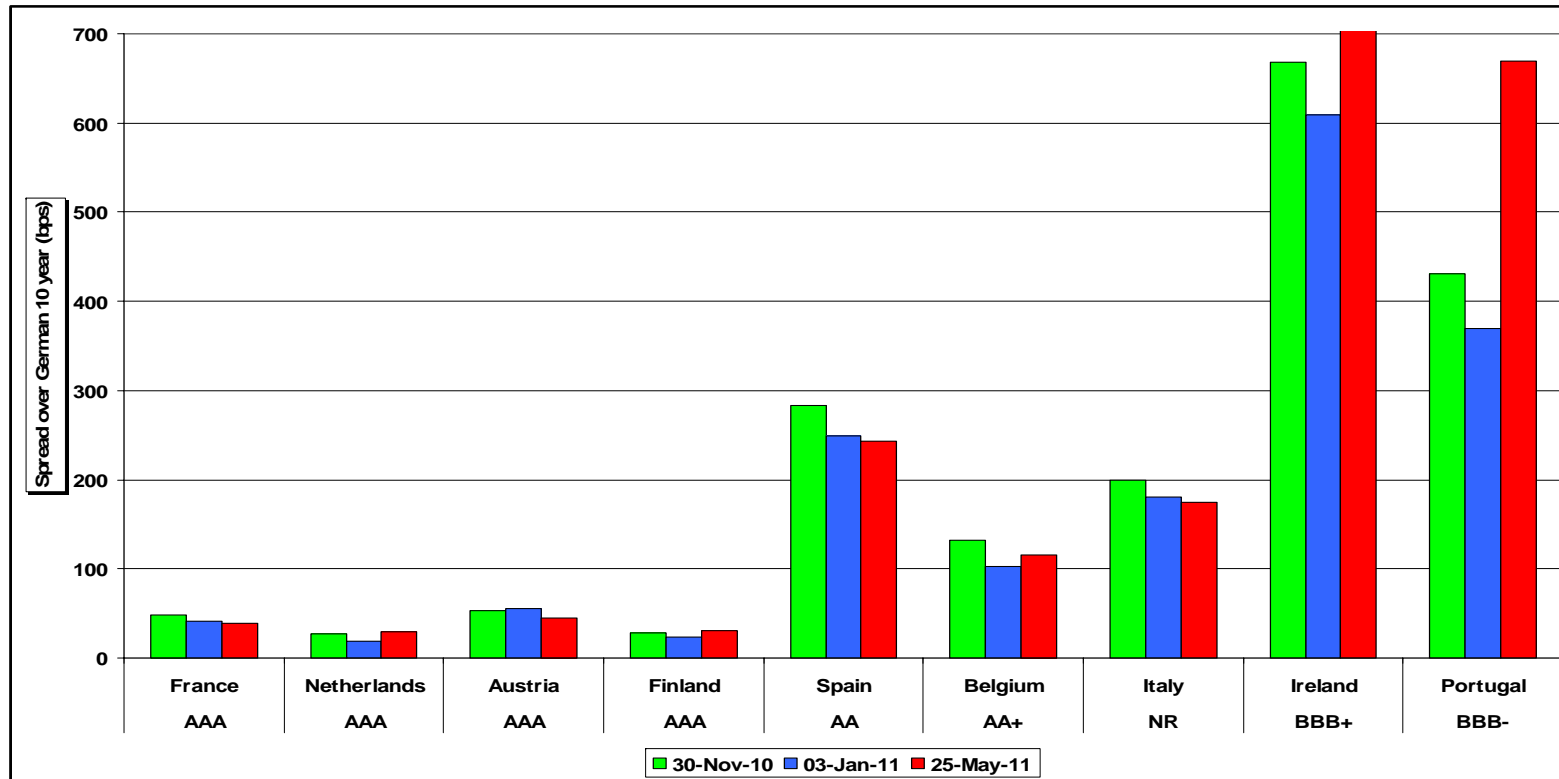
# Eurozone AAA 10-year yield



Source: Reuters

- During times of low growth and low inflation German 10 year yield trades in a range of 3% to 3.5%
- **But: German yoy growth at 5.2% and inflation at 2.8%**
- German yields “depressed” by flight to quality

# Concerns for peripheral countries

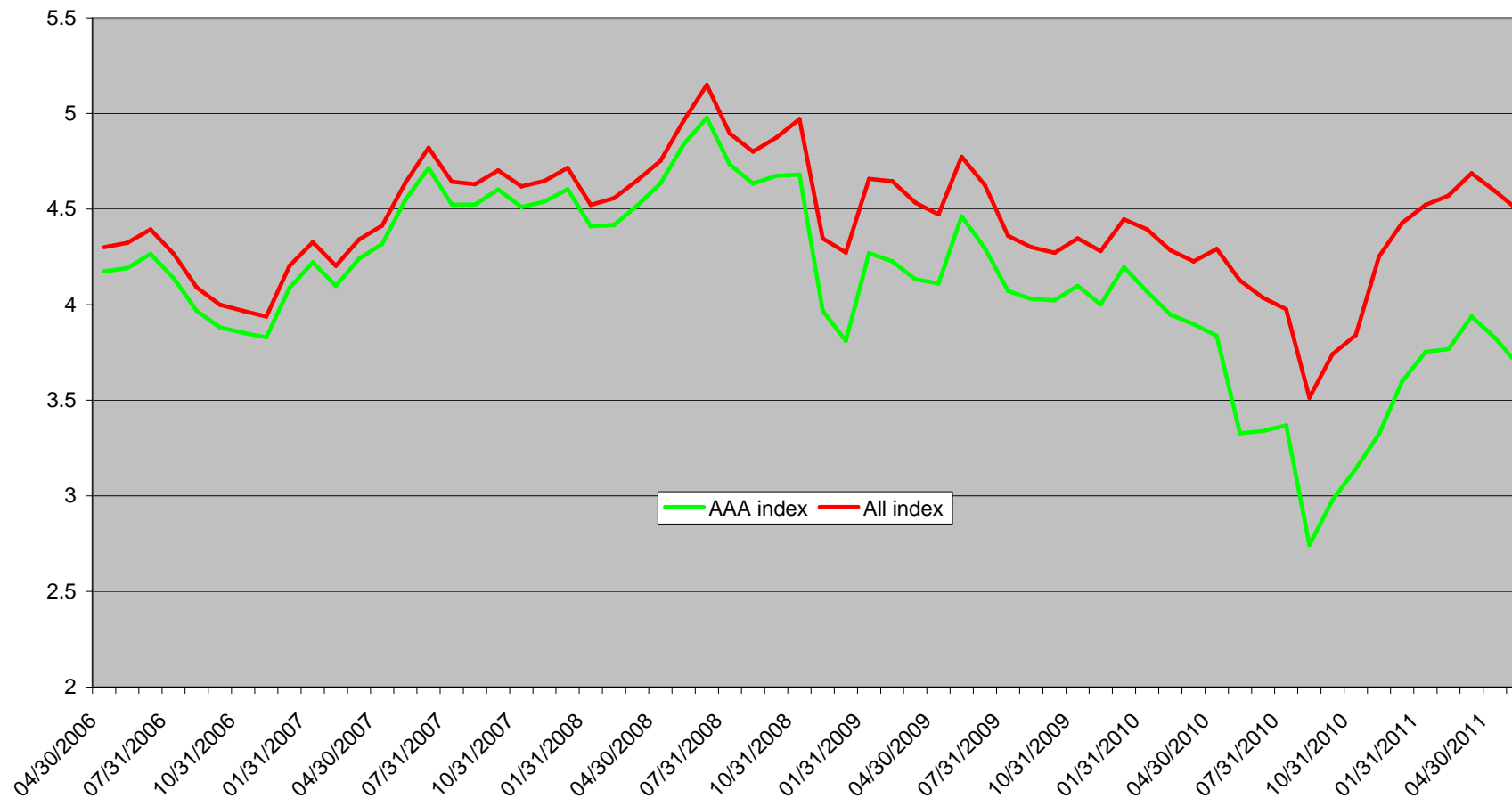


Source: Bloomberg

- EU bailout fund supportive for Belgium, Italy and Spain
- Investors remain cautious on Ireland and Portugal

# Eurozone Long Bond yields

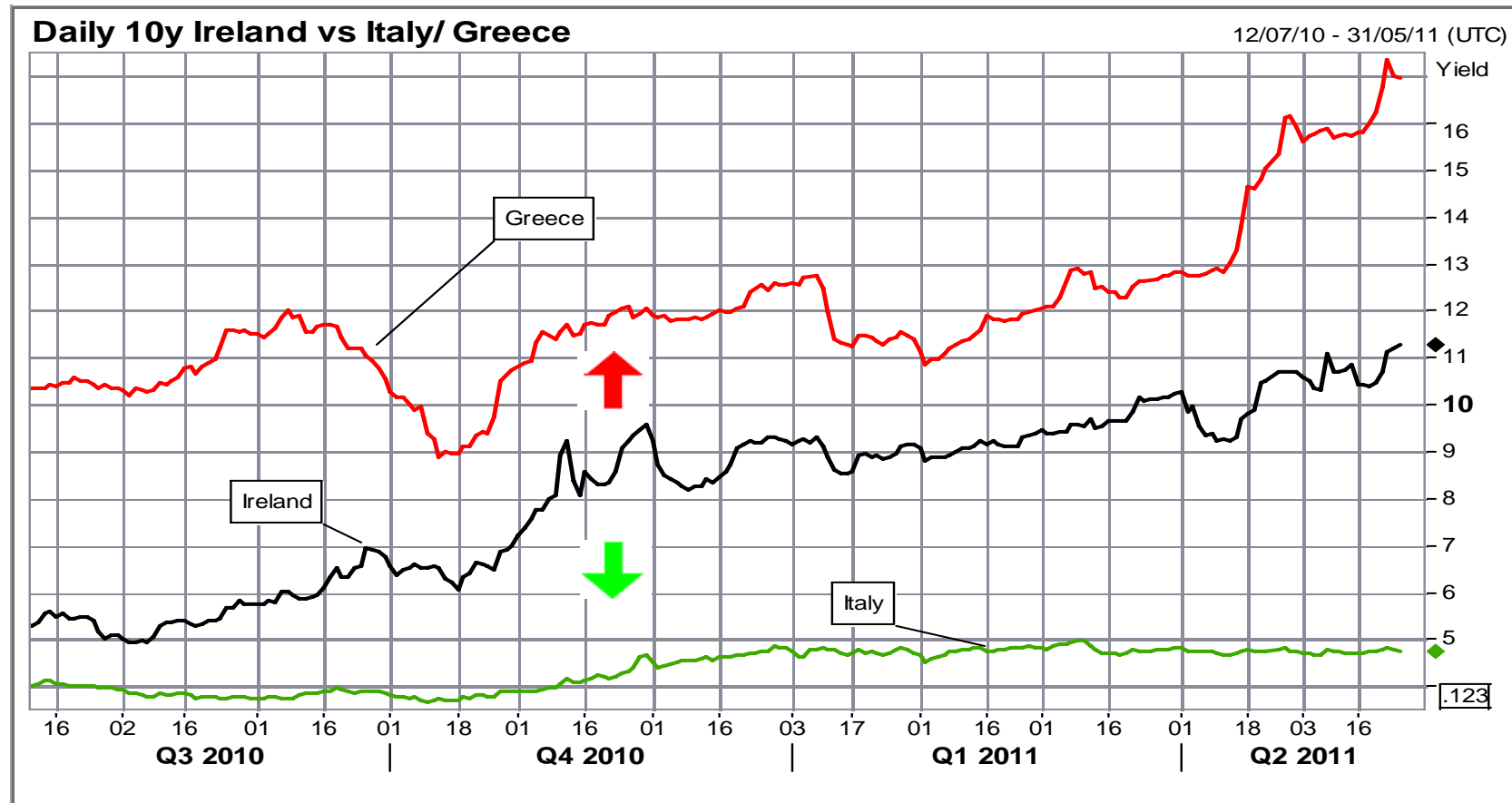
Eurozone >10 year index yield



Source: Bank of America/Merrill Lynch

➤ Ireland + Portugal at 1.4% in all index, BIS at 36%

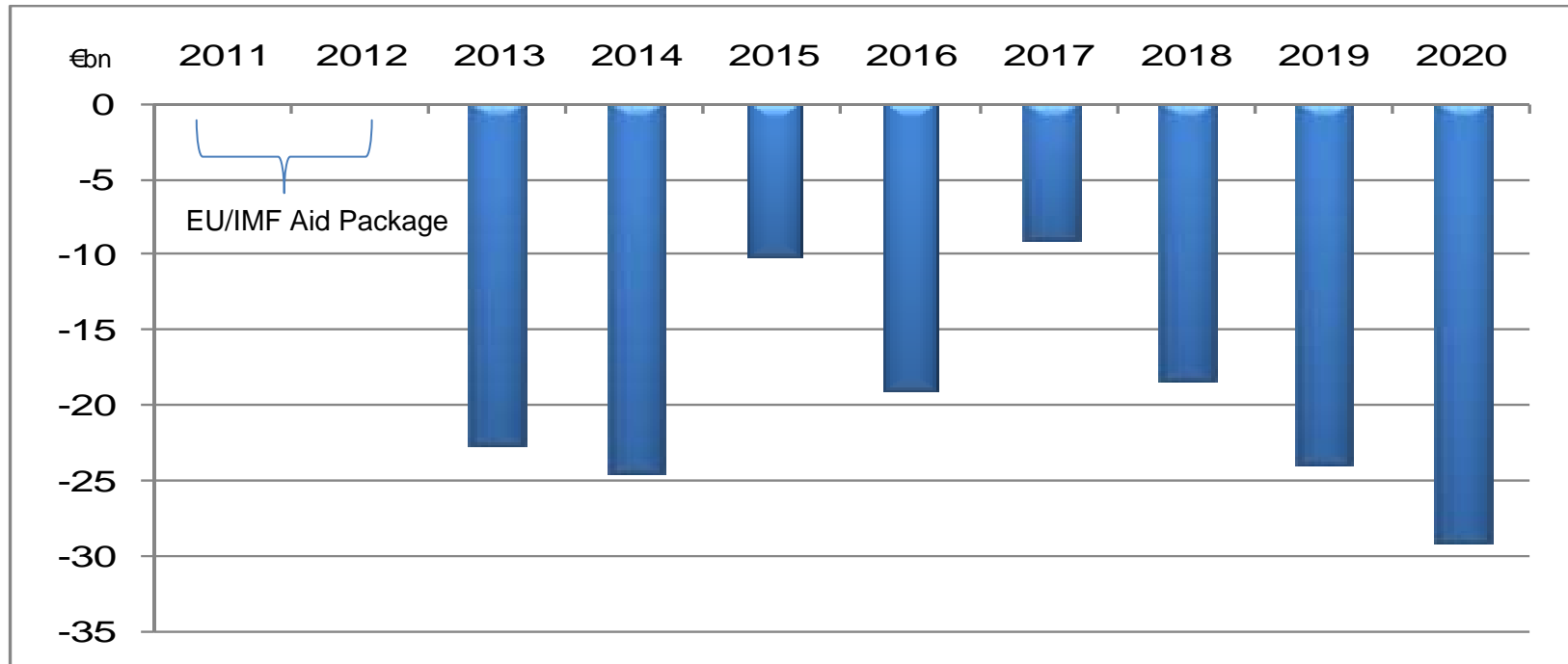
# Greece and Ireland



Source: Reuters

- EU approach to Greece will be defined at Ecofin meeting in June (24<sup>th</sup>)
- Investors are sidelined for Greek and Irish Government bonds

# Ireland funding needs



Source: NTMA, Irish Department of Finance, Glas Securities Estimate

- Assumes 3% deficit beyond 2015
- Includes Deficit, Bond Redemptions and Promissory Note Funding

# Ireland

- The Government has set up a new plan to bring the deficit back to 3% of GDP by 2015
- Economic growth is critical for the Ireland to achieve this target
- To date exports have been the only contributor to growth
- Economic growth 2011: 0.7%e, 2012: 2.5%e
- Ireland stuck in group “C” with Greece and Portugal

# Disclosure Statement

**Irish Life Investment Managers is the asset management arm of the Irish Life & Permanent Group. Irish Life Assurance (trading as Irish Life) and Irish Life Investment Managers are regulated by the Central Bank of Ireland.**

**Past performance, forecasts and simulated performance may not be a reliable guide to future performance.**

**Investments may fall as well as rise**

**Changes in currency exchange rates may have an adverse effect on the value, price or income of the product**



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