



### MARKETS VOLATILE AS ECONOMIC OUTLOOK REMAINS UNCERTAIN

Equity markets continued to fall in June, with most indices posting negative returns as fears over the health of the global economy continued to weigh on investors. Large cap outperformed small cap while growth outperformed value. At a global sector level Telecoms and Healthcare were the best performers in a down market, while Energy and IT stocks lagged. Gold and crude oil both rose approximately 2% in June. Against this backdrop, the MSCI index of world equities fell 4% and the Citigroup World Government Bond Index rose 2%, both in Dollar terms.

Global equity markets were subject to considerable volatility during the month with sentiment in the major developed markets alternating between extremes of optimism and pessimism. The net position at the end of the month in most equities markets was negative, however, as what appeared to be a global return of risk appetite at the beginning of June gave way subsequently to profit taking. This nervousness emerged amid revived concerns about the health of the European banking system, mounting speculation over Spain's ability to refinance its deficits and mixed economic indicators.

In spite of last month's far-reaching austerity package, borrowing costs for Spain remain stubbornly high. The ability to raise funding and repay borrowings are largely predicated on sustained growth prospects which the market assesses to be poor given unemployment levels of 20% and an undiversified economy oriented toward construction. This scepticism about the growth potential for Spain arising from its economy's deep-rooted structural problems applies also to Ireland, Portugal and, of course, Greece, whose credit rating was downgraded by Moody's to junk status during the month. As Greece was removed from the Investment Grade bond indices, some forced selling ensued during which the ECB was, at time, the only buyer.

Markets were conscious that some banks were clearly struggling to borrow money in the inter-bank market and this was heightened as €442 billion in ECB loans became due at the end of the month. The period for repayment was summarily extended to avoid the creation of a new liquidity/solvency crisis. Meanwhile, European regulators sought to ease concerns in the money markets by stating that the results of the bank "stress tests" would be made public in July. The idea is that these results will reassure investors by removing the opaqueness of a Bank's credit risk, and either dispel doubts as to a bank's financial health or identify areas of concern which needs to be addressed.

Economic data releases were far from universally negative. Mr. Bernanke, the current Chairman of the United States (US) Federal Reserve, insisted the US recovery remained intact and news early in the month was supportive of this assertion. Manufacturing expanded in May for a tenth straight month, while industrial production increased - The University of Michigan Consumer Sentiment Index rose in June to its highest level in more than two years. However, three pieces of data eroded investor confidence: New home sales declined by 10% in May; retail sales declined for the first time in eight months; and current year guidance from Fed-Ex, often considered a bell-weather for the global economy, turned out to be disappointing, highlighted with a profit warning for the quarter. Bernanke did concede that growth over the coming months is unlikely to be particularly vigorous. Later in the month, the US Central Bank announced that its Federal Open Markets Committee had voted 9-1 to leave US interest rates unchanged at a range between 0 and 0.25%. Analysts felt that the accompanying statement was slightly more cautious than in previous months; the Federal Reserve stated that "financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad".

In Europe some of the economic fundamentals looked encouraging. German unemployment fell by more than twice as much as economists had forecasted, while German exports surged by 10.7% in March (data released in May), highest in 18 years. Purchasing-manager reports across Europe were favourable, as businesses enjoyed the benefits of the weaker Euro. Traders responded favourably to the Committee of European Bank Supervisors (CEBS) initiative to carry out comprehensive stress tests and create greater transparency in the European Banking sector. However, investors' activity continued to be dominated by two familiar anxieties that: overzealous, simultaneous cuts in public sector finances would derail the global economic recovery and a new sovereign funding crisis in Europe would stretch the generosity and solidarity of Eurozone partners, calling into question the sustainability of any financial assistance offered to institutions in need.

The Irish Life International Managed funds posted negative returns for June across all funds in each currency. Relative to their benchmarks the Managed funds outperformed across all funds except for marginal underperformance in the Euro Cautious Managed fund. The Managed Growth funds in all currencies achieved the best relative performance over the period, while Emerging Markets Asia, UK and Global Emerging Market equities were the best performing underlying funds relative to their benchmarks, however US equities lagged over the month.

After another difficult month it is important to remember that challenging markets create opportunities for long term investors focused on strong fundamentals. Companies have proved capable of delivering solid gains in both top and bottom lines thus far in 2010 and there are some positive forward-looking economic indicators which show that the economic recovery continues apace though in a slower and less linear fashion. Crucially for equities, European and US interest rates are expected to remain very low for the foreseeable future. It should also be borne in mind that various price/earnings valuation methodologies suggest stocks in the US and Europe are now undervalued on a historical basis.

## MONTHLY MARKET INDICATORS REPORT FOR June 2010

<b>World Equity &amp; Bond Indices</b>	<b>31/12/2009</b>	<b>31/05/2010</b>	<b>31/06/2010</b>	<b>% change</b>
Dow Jones Industry Avg (\$)	10,428.00	10,136.60	9,774.02	-3.6%
S&P 500 Index (\$)	1,115.10	1,089.41	1,030.71	-5.4%
NASDAQ Composite Index (\$)	2,269.15	2,257.04	2,109.24	-6.5%
FTSE 100 Index (£)	5,412.88	5,188.43	4,916.87	-5.2%
Nikkei 225 Index (¥)	10,546.44	9,768.70	9,382.64	-4.0%
Dow Jones Euro Stoxx (€)	274.74	249.82	246.38	-1.4%
MSCI World Index (\$)	1,168.47	1,079.80	1,041.32	-3.6%
Citigroup World Gov Bond Index (\$)	830.59	808.06	821.92	1.7%
<b>Currency</b>	<b>31/12/2009</b>	<b>31/05/2010</b>	<b>31/06/2010</b>	<b>% change</b>
\$/€	1.4321	1.2306	1.2238	-0.6%
\$/£	1.6170	1.4538	1.4945	2.8%
£/€	0.8869	0.8465	0.8188	-3.3%
<b>Commodities USD\$</b>	<b>31/12/2009</b>	<b>31/05/2010</b>	<b>31/06/2010</b>	<b>% change</b>
gold - \$ per ounce	1,096.95	1,216.20	1,242.25	2.1%
oil - \$ per barrel	79.36	73.97	75.63	2.2%
<b>Interest Rates</b>	<b>31/12/2009</b>	<b>31/05/2010</b>	<b>31/06/2010</b>	
USD three month interest rate	0.25%	0.54%	0.53%	
STG three month interest rate	0.61%	0.71%	0.73%	
EUR three month interest rate	0.70%	0.70%	0.77%	
US Government 10 year bond yield	3.84%	3.28%	2.93%	
UK Government 10 year gilt yield	4.02%	3.58%	3.36%	
German Government 10 year bund yield	3.39%	2.66%	2.58%	
Italian Government 10 year bond yield	4.14%	4.14%	4.09%	

Source: Bloomberg 24/07/10

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