

After a faltering start to the month of July, equity market fortunes rapidly improved as the second-quarter earnings season kicked off with positive surprises outstripping disappointing company results. The corporate world has proven more adept than expected at extracting cost savings from their operations and this was reflected in higher-than-anticipated profits (or fewer losses) than consensus expectations. The US Dow Jones Industrial Average enjoyed its best monthly gain since 2002.

Underpinned by economic data releases signalling that the worst of the recession may have passed, equity investors grew more emboldened to take advantage of the dip in share prices. The returning risk appetite was reflected in a preference for more economically-sensitive sectors, embracing materials, consumer discretionary and financial stocks. In short, there was a return to the trend seen in the rally from March to early-June. Asian markets maintained their recent pattern of outperformance with China's Shanghai Index leading most others with a 15.3% return.

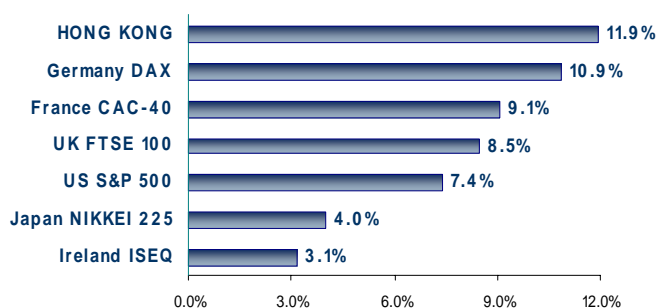
BIAM Strategy and Outlook

- The surge of optimism that underscored July's particularly strong equity market recovery was rooted in better corporate results and a sustained trend in improving economic data. While that trend in data has been something akin to 'two steps forward, one step back' the direction is positive, particularly in the US and UK.
- As we've alluded to in recent months, leading indicators such as purchasing manager indices point to expectations of a sharp rebound in activity. This optimism is not yet being reflected in consumer-related indicators; the US Conference Board's Consumer Confidence Index fell in July for the second month in a row, driven by a combination of rising unemployment and a sustained pick-up in the price of gasoline. The German IFO business sentiment survey is also well ahead of consumer confidence, as capital equipment manufacturers gain from massive Chinese infrastructure spending. Unemployment is the lagging indicator that worries market participants as this is expected to keep rising into 2010 in many developed economies.
- However, there was more evidence that the housing market

was stabilising, with US housing starts in June rising 3.6% to 582,000. This is the highest level in seven months, while still a long way below historical averages. New and existing home sales also recorded gains and US house prices enjoyed a first month-on-month increase in three years.

- An aggressive inventory correction and payroll cost cuts have resulted in robust corporate earnings momentum, despite the challenging environment for revenue growth. A risk to sustaining this momentum lies with negative feedback arising from these same job cuts, as consumer spending might stabilise at lower levels. On balance, we believe that prospects are better than currently implied as there is more scope for improvement in top-line growth.
- We are less sanguine about government bond prospects, believing yields are more likely to rise than fall in the current conditions. Separately, Irish government bonds continued to narrow the yield gap with German bonds as investors recognised that the yield divergence was disproportionate to relative risk. Corporate bonds have continued to outperform and we remain comfortable with a 27% allocation to credit in balanced bond mandates.

Equity market returns - July 2009



Source: Bloomberg. Capital returns in local currency.

Movement in 10-year bond yields

| | 31-Dec-08 | 30-Jun-09 | 31-Jul-09 |
|----------------|-----------|-----------|-----------|
| US | 2.22% | 3.54% | 3.48% |
| UK | 3.02% | 3.69% | 3.80% |
| Germany | 2.95% | 3.39% | 3.28% |
| Japan | 1.17% | 1.36% | 1.42% |
| Ireland | 4.27% | 5.73% | 4.96% |

Source: Bloomberg.