Bank of Ireland
Asset Management

January 2010

Market Review & Outlook

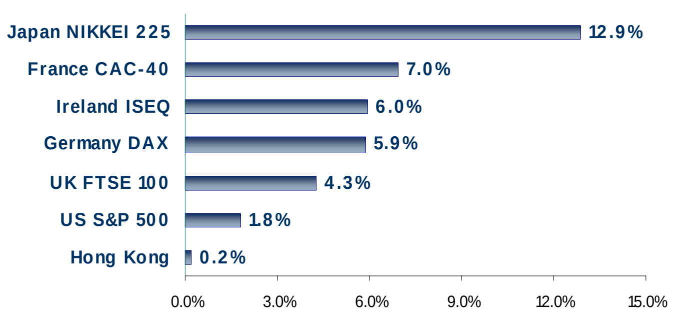
Global equity markets rounded off a strong year with particularly healthy gains in December. Investors shrugged off worries that shrouded Greek and Dubai bond fortunes to focus on more robust corporate and economic news. The month began with a significant improvement in US unemployment data, which revealed the lowest number of job losses in November for nearly two years and positive revisions to job loss numbers of earlier months. Technology, utility and industrial sectors tended to outperform, while rising commodity prices underpinned gains for energy and mining stocks. Banks were weaker in the month as tough proposals on capital and liquidity were put forward by the Basel Committee on Banking Supervision.

Greece's woes weighed on the euro, while the Japanese yen also succumbed to weakness as the government planned a 7.2 trillion yen (US$81bn) fiscal stimulus plan. For Japanese exporters, the weaker currency underpinned share price gains with auto manufacturers among the major beneficiaries. Japan's stock market was among the best performers in the month. The US dollar was stronger as the Federal Reserve indicated it will reduce excess liquidity in the first quarter.

BIAM Strategy and Outlook

- As we move into 2010, the macro-economic backdrop contrasts favourably with that of a year ago. While aware that the progress is from a low base, many indicators have displayed sharp improvements since the second quarter. The German IFO Business Sentiment Index is at a 17-month high, US house prices have risen for five consecutive months and the pace of unemployment in many countries has slowed considerably. Several leading economies have now posted back-to-back quarters of growth, and the US economy is expected to report growth of more than 4% in the final quarter.
- Pressure points still remain however. The US Conference Board's latest consumer confidence survey revealed that expectations for the next six months hit a two-year high, but attitudes about current conditions fell to a 26-year low. Challenges remain in labour markets, which in turn could inhibit spending, particularly as households continue to deleverage.
- We don't expect equities to enjoy as strong a year as 2009, but we are upbeat about the long-term prospects for stock markets. Corporate earnings momentum has gathered pace and the cost-cutting practices throughout the downturn have boosted the bottom line. Based on 2010 and 2011 earnings estimates, we believe there remains good upside potential. However, we are conscious that valuations are not universally attractive, and we are seeing value in some of the more 'defensive' sectors of late. This has resulted in an easing of the cyclical bias in balanced portfolios.
- We have held a cautious view on government bonds for some time, believing that increased debt issuance would ultimately lead to lower bond prices. The notable increase in bond yields towards year end suggests that investors are less comfortable with the risk-reward balance, particularly as financial difficulties for Greece and Dubai raised the spectre of a possible default, however unlikely. Clear signals that central banks will rein in bond purchases and other liquidity measures also hang over sovereign bond prospects in 2010.

Equity market returns - December 2009



Source: Bloomberg. Capital returns in local currency.

Movement in 10-year bond yields

	31-Dec-08	30-Nov-09	31-Dec-09
US	2.22%	3.20%	3.84%
UK	3.02%	3.52%	4.02%
Germany	2.95%	3.16%	3.39%
Japan	1.17%	1.27%	1.30%
Ireland	4.27%	4.84%	4.84%

Source: Bloomberg.