

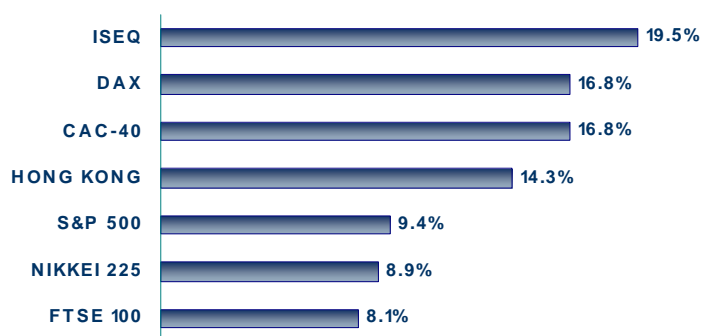
Stock markets built on March's rebound to record some particularly strong returns in April. Ireland's ISEQ Index recorded a gain of 19.5%, a monthly return bettered only once before in the index's 26-year history. Banks led the charge as the country's leading bank shares leapt as much as 60%, a trend mirrored globally as some beleaguered financials reported healthy profits for the first quarter of 2009.

Evidence that the pace of economic decline may be slowing heartened investors, as did a sustained decline in money market rates that spurred confidence that corporate access to necessary capital may be improving. With signs that the inventory correction that has severely disrupted industrial production could be close to an end, an increase in risk appetite was evident in the outperformance of economically-sensitive sectors such as materials, industrials and consumer discretionary alongside financials.

### BIAM Strategy and Outlook

- US macroeconomic indicators continue to highlight weak conditions prevailing on several fronts, although the pace of deterioration has slowed in many areas. Improvements in consumer confidence and housing market data offset a worse-than-expected headline GDP contraction of 6.1% in the first quarter. While the outlook for employment remains particularly feeble, the overall trend in data is encouraging and provides an element of ex-post validation to the recent equity market rebound. However, the numbers are not yet definitive in terms of an imminent economic recovery.
- In Europe, signs of stabilisation are still patchy although recent rebounds in Eurozone Purchasing Managers' Indices (PMIs) indicate that the pace of contraction may be slowing down. A somewhat similar picture exists in the UK where the housing market has shown tentative signs of bottoming out. A reversal of the recent plunge in Chinese electricity output and upgrades to GDP forecasts bodes well for China's prospects. Its budgetary position is solid, and the efforts by the government to stimulate the economy through domestic demand was noted with a rise in car sales.
- We remain favourably disposed towards equities and would be inclined to add further to the asset class for balanced portfolios should valuations become more attractive. Valuation metrics suggest that equities are still quite cheap despite the recent rally from early-March lows. S&P 500 corporate earnings will rebound strongly this year and next mainly due to comparisons with the bank-loss induced 2008 earnings level. Of particular note has been the increasing dispersion of stock returns in recent months. A much wider deviation in stock returns presents opportunities for a bottom-up stock picker.
- Bond markets have largely priced in a severe recession, with governments and central banks responding aggressively to stabilise the banking system and prevent a collapse in money supply. The European Central Bank has been a laggard in this respect and we believe that there is scope for further gains at the short-end of the yield curve as interest rates are lowered. In the past month, there was also a notable improvement in the relative performance of peripheral Eurozone country bonds as the higher investor risk appetite saw the cost of borrowing for Irish, Greek and Portuguese governments fall closer to that prevailing for Germany.

#### Equity market returns - April 2009



Source: Bloomberg. Capital returns in local currency.

#### Movement in 10-year bond yields

	31-Dec-08	31-Mar-09	30-Apr-09
<b>US</b>	2.22%	2.67%	3.12%
<b>UK</b>	3.02%	3.17%	3.50%
<b>Germany</b>	2.95%	2.99%	3.17%
<b>Japan</b>	1.17%	1.35%	1.43%
<b>Ireland</b>	4.27%	5.46%	5.20%

Source: Bloomberg.