

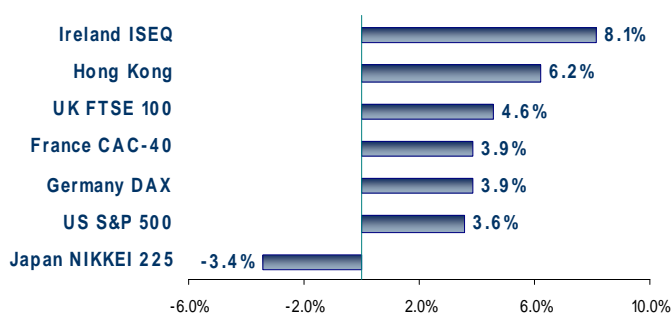
We passed the one-year anniversary of Lehman Brothers' collapse on the 15th September. This was the trigger for a financial market crisis arguably unseen this side of World War II, but 12 months on, stock markets are in recovery mode and Lehman has been consigned to a footnote in history. Equity markets posted further gains in September, and while market participants tended to maintain a bias towards more economically-sensitive sectors, it wasn't universal. Merger and acquisition activity and speculation (Dell/Perot Systems, Kraft/Cadbury, Disney/Marvel) underpinned advances in some sectors. Banks generally had a relatively quiet month on the global stage, although Irish banks were notable exceptions; share prices surged as markets reacted positively to the likely implications of the proposed National Asset Management Agency after details on initial loan valuations were announced.

Emerging markets outperformed in September, aided by a rebound in Chinese stock market fortunes after a recent 20% fall. One of the weakest performing markets was Japan, where investors faced a rare change in government and the new finance minister suggested that businesses be allowed to suspend loan payments for up to three years.

BIAM Strategy and Outlook

- Many leading economic indicators are pointing to the now familiar (but yet to occur!) V-shaped recovery. The positive trend seen in US new orders surveys can be seen in a number of other regions. Even lagging indicators such as the US labour market are showing tentative signs of improving, although at this stage, jobs are still being lost.
- A similar rebound can be seen in UK data, and the property market is showing signs of a possible turnaround. Even Ireland has shown some modest improvement of late, with the slowdown in GDP contraction and unemployment growth suggesting that the worst may have passed.
- The International Monetary Fund (IMF) has also become more convinced; it raised its forecast for global growth to 3.1% in 2010, up from its 2.5% prediction in July. The IMF pointed to strong Asian economies and modest recoveries elsewhere as driving the improved outlook, but warned that the rebound is likely to be "sluggish, credit constrained and, for quite some time, jobless".
- A number of other topical macroeconomic and market trends are giving some interesting, if conflicting, messages at present. The Baltic Dry Index, which tracks international shipping prices, has turned down again and may raise unease about emerging market demand for raw materials. Meanwhile, the US Leading Indicators Index points to a big recovery in activity. Elsewhere, recent data suggests that the US housing market may be past the worst point in the cycle. However, this needs to be considered alongside the implications of further private sector deleveraging.
- The strong rally in stock markets in recent months has caused some valuation measures to revert to long-term mean values. An economic recovery is now in stock prices, and cheap valuation opportunities are no longer as abundant, although they do exist. If growth turns out to be stronger than currently expected, it has positive implications for earnings given the high levels of operational leverage. A more disappointing growth out-turn would present a challenge to equity valuations. We remain positive on equities, but will continue to monitor evolving circumstances closely.

Equity market returns – September 2009



Source: Bloomberg. Capital returns in local currency.

Movement in 10-year bond yields

	31-Dec-08	31-Aug-09	30-Sep-09
US	2.22%	3.40%	3.31%
UK	3.02%	3.56%	3.59%
Germany	2.95%	3.24%	3.22%
Japan	1.17%	1.31%	1.30%
Ireland	4.27%	4.85%	4.67%

Source: Bloomberg.