

Global equity markets enjoyed another strong month, with healthy gains sustaining the six-month rally. A notable exception was in China where the Shanghai Composite Index slumped 22% amid some concern that the market had been demonstrating characteristics normally associated with bubbles. Plans by the Chinese authorities to tighten bank lending also weighed heavily on sentiment. Elsewhere, markets were buoyed by continued evidence of economic improvement, with France and Germany emerging from recession and signs that the US and UK may not be far behind. A slowdown in the pace of US job losses and a rise in consumer confidence bolstered US expectations.

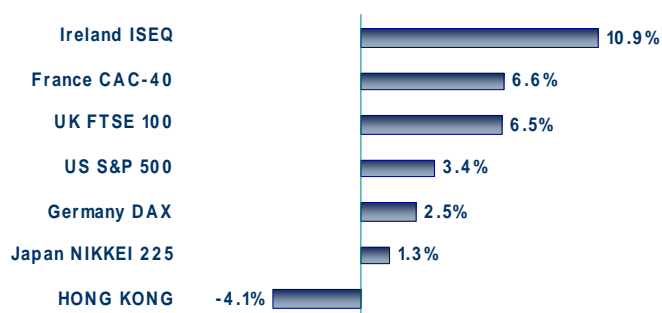
Banks were in the vanguard of market gains, with earnings announcements bringing unexpectedly large profits in some instances. Irish banks drove the ISEQ Index to a 10.9% gain despite growing political opposition to the National Asset Management Agency (NAMA). Globally, the improving nature of economic data has driven the investor preference for more cyclical stocks. Industrial and consumer discretionary sectors were also strong performers at the expense of 'defensive' telecommunication and consumer staples stocks.

### BIAM Strategy and Outlook

- The threads of economic renewal have been pulled tighter together in recent months with most leading economic indicators continuing to map out a recovery. Business sentiment in Germany has continued its recent advance, where measures such as a car scrappage scheme have proven just as effective as the US 'cash for clunkers' plan. Forward-looking consumer confidence indicators in most regions also reveal rising optimism (or declining pessimism). The slowdown in the pace of job losses has also helped to stabilise confidence in current conditions.
- US manufacturing is undoubtedly showing improvement, with the ISM manufacturing index rising for an eighth month in August to a level of 52.9. A figure above 50 indicates expansion and this is the first such figure since January 2008. The combination of a weak dollar, productivity gains and lower labour costs underpin the sector's prospects. Ultimately, such factors should contribute to an improvement in the labour market as increased competitiveness should generate increased sales.

- Europe's numbers are something of a mixed bag, with quarter-on-quarter GDP growth of 0.3% in both Germany and France, while Lithuania experienced a 22% drop in output compared to the second quarter of 2008. However, the broad trend is one of improvement, with even the Irish economy exhibiting slower unemployment growth.
- With equities moving closer to 'fair value' on some measures, markets would appear to be pricing in a recovery rather than merely pricing out Armageddon. While we are monitoring valuations closely, we believe that earnings momentum can be sustained and that top-line sales growth next year will be better than forecast. Aggressive cost cutting means that a small improvement in revenue growth can increase profits meaningfully.
- Gains by government bonds in August were counter-intuitive to economic data trends. It suggests that investors anticipate a prolonged period of low inflation, accompanied by low official interest rates. It also suggests a belief that the considerable bond issuance ahead will continue to be absorbed by investors despite low yields. However, we believe sovereign bonds are relatively expensive at this time.

#### Equity market returns – August 2009



Source: Bloomberg. Capital returns in local currency.

#### Movement in 10-year bond yields

	31-Dec-08	31-Jul-09	31-Aug-09
<b>US</b>	2.22%	3.48%	3.40%
<b>UK</b>	3.02%	3.80%	3.56%
<b>Germany</b>	2.95%	3.28%	3.24%
<b>Japan</b>	1.17%	1.42%	1.31%
<b>Ireland</b>	4.27%	4.96%	4.85%

Source: Bloomberg.