



**“As anticipated, the US Federal Reserve (Fed) cut interest rates to 2% this month. Its accompanying statement omitted the previous reference to ‘downside risks to growth’ — a sign that the Fed is contemplating a pause in the current cycle of monetary policy easing”.**

**Brendan Lardner, Senior Portfolio Manager — Fixed Income**

### Positive month for global equities...

- Global equity markets enjoyed a strong April, driven by optimism that the worst of the credit crisis may be over. Earnings results, which proved to be broadly encouraging, also added to the improvement in investor sentiment.
- The rebound in global equity markets materialised, despite the fact that the US macroeconomic backdrop remains challenging. Employment, manufacturing and consumer confidence continued to trend lower, while the malaise in the US housing market showed few signs of easing.

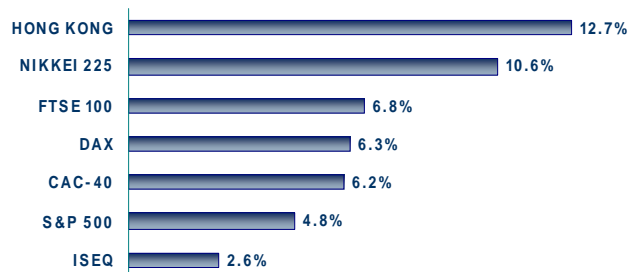
### Asia in the ascendency in April...

The Asia Pacific region was home to some of the best-performing equity indices this month. Having been the worst-performing index in March, Japan's Nikkei 225 posted a 10.6% return as the market reacted positively to signs that, after years of deflation, inflation may be returning to the Japanese economy. The Japanese yen weakened over 4% against the US dollar, providing a boost to export-oriented stocks.

The S&P 500 rose 4.8% as results from blue chip companies — such as Johnson & Johnson, Intel and Boeing — eased concerns that profits will deteriorate. The ISEQ Index of Irish shares posted its first monthly increase since October 2007, with a gain of 2.6%. Food stocks were the most impressive performers, while Financials underperformed as economic growth forecasts were scaled back and unemployment increased. The effect of the strong euro was borne out in reduced 2008 earnings forecasts from a variety of Irish companies this month.

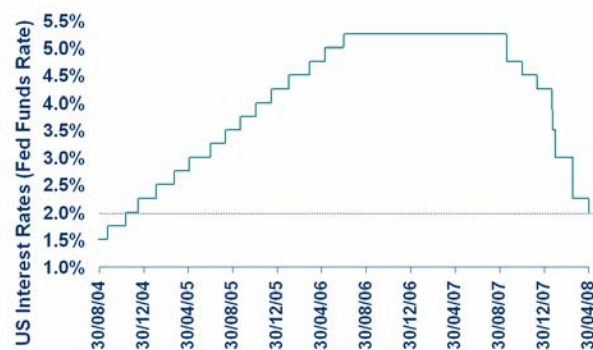
On a global basis, Financials enjoyed a month in the sun as investors reacted favourably to the news that banks continue to strengthen their balance sheets. Swiss investment bank UBS, as well as UK duo RBS and HBOS, all sought additional capital from shareholders this month. Despite further writedowns by some leading global financial institutions, investors were cheered by the belief that banks will be able to move forward on a sounder footing. Oil prices were highly volatile, but this did not stop energy-related stocks enjoying another month of robust gains. Cyclical stocks — such as those in the Consumer Discretionary and Industrials sectors — tended to underperform.

### Equity market returns – April 2008



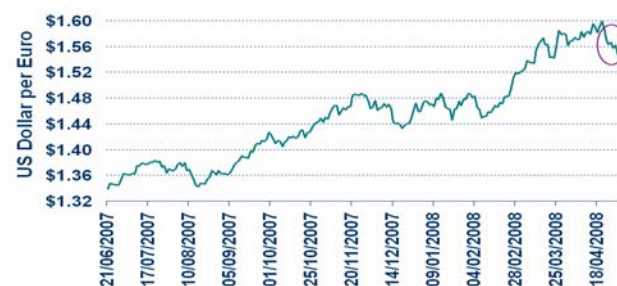
Source: Bloomberg. Capital returns in local currency.

### Will the Fed now choose to pause?



Source: Bloomberg.

### ... recent US dollar strength suggests so



Source: Bloomberg.

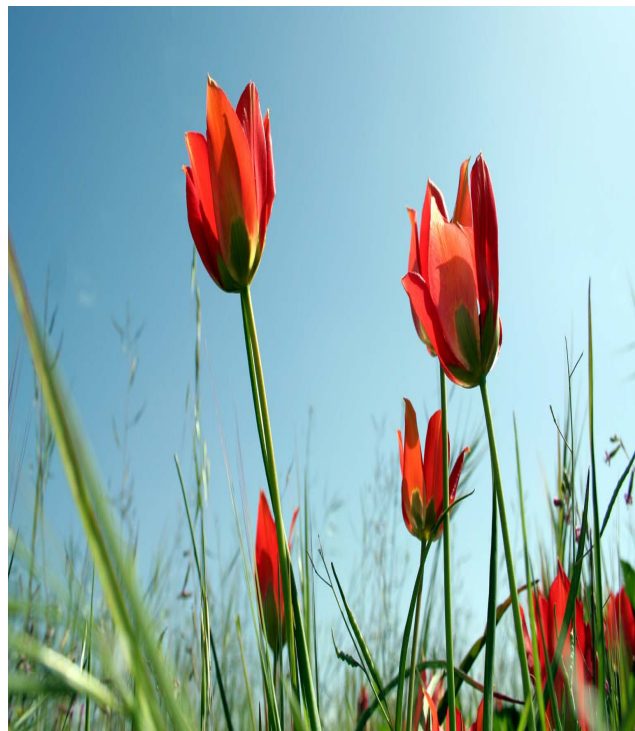
## Developing economies remain strong...

Emerging market economies, such as Brazil and China, continue to display strong growth characteristics; a feature that contrasts sharply with the softer economic data apparent in much of the developed world at present. Despite the recent surge in commodity prices, emerging economies have shown few concrete signs of growth slowing significantly — an impressive performance given the backdrop of elevated inflation and global credit market turmoil.

Bond markets performed poorly in April, even though the macroeconomic backdrop in the developed world remains challenging — with slower manufacturing growth, unemployment edging higher and declining business confidence. Yields rose due to a renewed appetite for risk, receding hopes of imminent UK and Eurozone interest-rate cuts, and a possible pause in the current cycle of monetary easing by the Fed.

### 10-year bond yields

	31-Dec-07	31-Mar-08	30-Apr-08
<b>US</b>	4.03	3.41	3.73
<b>UK</b>	4.51	4.35	4.67
<b>Germany</b>	4.31	3.90	4.12
<b>Japan</b>	1.51	1.28	1.58



## BIAM's outlook

- A robust month for global equities has sparked renewed hope that the worst of the credit crisis may be behind us. Corporate credit markets also performed strongly in April, buoyed by continued recapitalisation of bank balance sheets and healthy issuance volumes. While significant challenges clearly exist for financial markets in the months ahead — one need only look at the continued stresses in the interbank lending market — we believe that the current distressed valuation levels of corporate bonds (especially financials) represent value.
- The decoupling thesis for Europe is being challenged, with the strong rise of the euro now impacting on business confidence. European earnings growth may drop to a single-digit level this year (at the start of the year the consensus was for low-teens growth). The likelihood of an imminent Eurozone rate cut has receded, although we continue to believe that policy chiefs will be forced to act this year. We feel that the Bank of England will need to be more aggressive in lowering interest rates as housing market weakness intensifies in the UK.
- We see continued commodity price strength. Crude oil, metals (such as copper, platinum and steel) and minerals (such as coal) are all set to remain buoyed by global demand growth, as well as supply-side disruptions. As such, we remain upbeat on the prospects for the materials and mining sector — which is also bolstered by persistent mergers and acquisitions speculation.