



“The collapse and rescue of Wall Street institution Bear Stearns sent a shiver through financial markets in March. Decisive action by the US Federal Reserve helped allay investors’ worst fears.”

Pat Cunningham, Head of Asian Equities & Member of Financials Research Team

Turbulent month for financial markets...

- Global equity markets experienced a significant slump in the middle of March as the collapse and rescue of the venerable Wall Street firm Bear Stearns shook investor confidence. The inability of the investment bank to access funding, amid rumours of considerable leveraged loan losses, sent a shiver through the market.
- By month-end, markets appeared comforted that the Federal Reserve (Fed) would continue to take aggressive action to ensure that a level of confidence in financial markets was maintained. The Fed cut its federal funds rate from 3% to 2.25% and introduced a range of new funding mechanisms.
- The US dollar remained weak against the euro, Japanese yen and Swiss franc.

US stocks outperform despite woes...

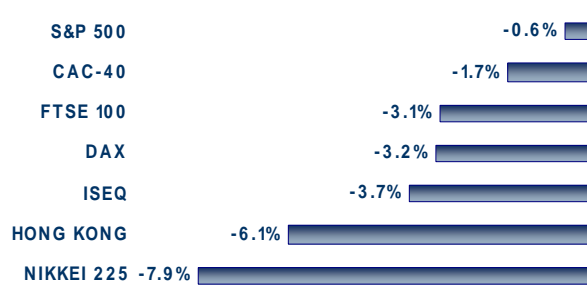
Despite further deterioration in the US economic landscape, and the aforementioned Bear Stearns bail-out, US equities outperformed most of their international counterparts this month. Indeed, Mexico, Russia and Taiwan were among the few countries to post positive returns in the month. The S&P 500 Index finished March 0.6% lower, while Japan’s Nikkei Index shed 7.9%.

The worse than expected US non-farm payroll report for February set the negative tone for the month, revealing a drop in employment of 63,000 (which was subsequently revised to 76,000). This was the second monthly decline in a row and the biggest drop in five years — adding to the belief that the US is in recession.

Sharp movements in the share prices of many banking stocks have been a feature for many months. Following particularly acute one-day action in a number of bank share prices, authorities on both sides of the Irish Sea initiated investigations into allegations of share price manipulation through the spreading of false rumours. UK lender HBOS rebounded in response, as did Irish Life & Permanent and Anglo Irish Bank. Anglo still finished the month in negative territory, however, while Irish Life rose nearly 15%.

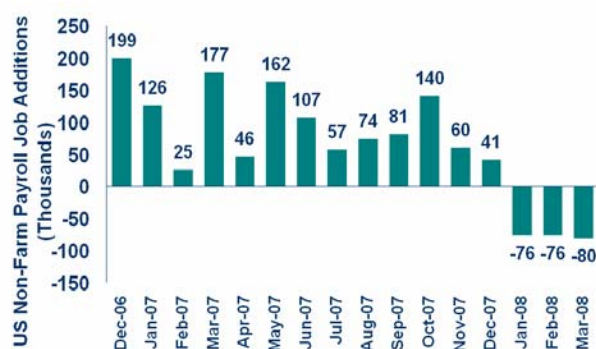
The Consumer Staples sector continued to outperform as the attraction of companies with earnings growth largely unaffected by economic cycles proved popular.

Equity market returns – March 2008



Source: Bloomberg. Capital returns in local currency.

US employment continues to weaken...



Source: Bloomberg.

Rice prices maintain upward trend...



Source: Bloomberg.

Signs of improvement on credit markets ...

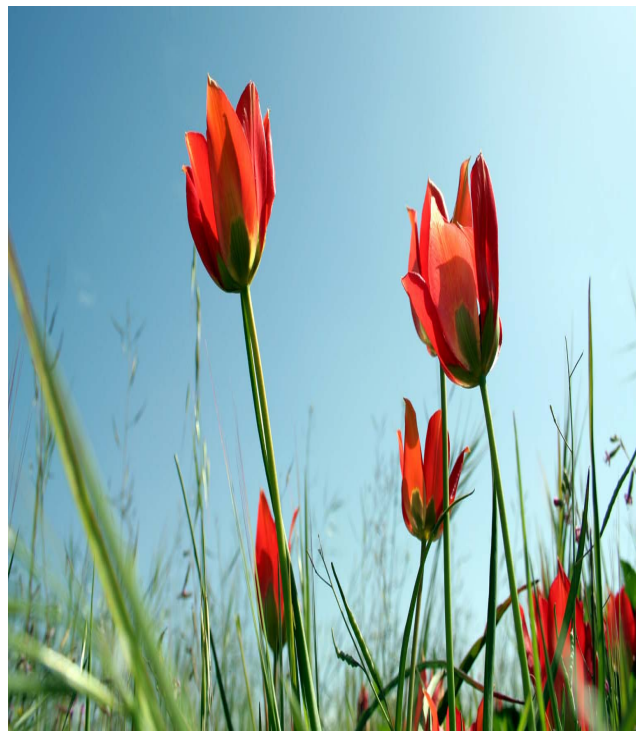
Bond yields in the US and UK moved lower as the Fed cut interest rates. The Bank of England looks set to follow in April, although not to the same extent. With the European Central Bank remaining steadfast in its anti-inflation stance, Eurozone bond yields moved higher. This was particularly the case at the shorter end of the curve, as expectations of an imminent rate cut subsided.

Credit remains distressed, although there was a hint of optimism at month-end as some new issuances came to the market. Citigroup raised an impressive sum of US\$7 billion in three issuances in March, a positive development as it demonstrates that capital raising is taking place.

10-year bond yields

	31-Dec-07	29-Feb-08	31-Mar-08
US	4.03	3.51	3.41
UK	4.51	4.47	4.35
Germany	4.31	3.89	3.90
Japan	1.51	1.37	1.28

Source: Bloomberg.



Looking Forward...

- There are very tentative signs of an end to the worst of the liquidity crisis. Despite interbank interest rates remaining elevated, partially due to quarter-end funding requirements, a degree – but only that – of stability has emerged in corporate credit markets. In addition, central banks (particularly the Fed) have shown a willingness to engage in both conventional and unconventional measures to restore stability and confidence to markets.
- We expect the earnings cycle to reach a trough towards the end of this year. Forward price-earnings (P/E) multiples are currently close to 20-year lows for the broad European market, and are also at depressed levels for the US market. Even if earnings are subject to further sharp reductions, valuations remain attractive. Stock markets have effectively priced in a recession.