Market Commentary April 2015

Investment Markets in April 2015

Highlights

- Equity markets fell in euro terms in April on foot of weaker economic data in the US and China and weakness in most of the major traded currencies against the euro.
- Bonds were also weaker in April with euro-denominated bonds falling due to marginally better German inflation numbers. US Treasuries saw a rise in yields despite the weaker economic data published during the month.
- Oil rebounded sharply at the beginning of the month reflecting the weakness in the US dollar as well as lower inventories in the US. Falling rig counts in North America also led to maket concerns regarding lower supplies.

Investment Market Performance

	Year to Date		April - 2015	
Index	**In local currency (%)**	**In € %**	**In local currency (%)**	**In € %**
ISEQ Index	15.7%	15.7%	0.5%	0.5%
FTSE 100	6.0%	12.6%	2.8%	1.6%
Eurostoxx 50 Index	14.9%	14.9%	-2.2%	-2.2%
S&P 500	1.3%	9.3%	0.9%	-3.5%
Nikkei 225	11.9%	21.1%	1.6%	-2.5%
FTSE All-World	4.7%	13.0%	2.7%	-1.7%
Oil	11.9%	20.8%	25.3%	19.8%
Eurozone Government Bonds		3.1%		-1.4%
USD / Euro		7.8%		-4.4%
GBP / Euro		6.2%		-0.9%

Source: Bloomberg

Economic Data

Data relating to the US labour market, new home sales and consumers disappointed expectations in April raising concerns of a slowdown in the economic recovery. This was confirmed by US GDP growth of 0.2% for Q1 2015, the lowest since the end of 2013. April PMI manufacturing data was weaker than expected in the US, Germany and China. German Q1 inflation figures surprised positively, however, at 0.3% compared to an expected 0.2%.

Global Economic Data Heatmap

Category	Data	Release Date	Latest reading	Market forecast	Prior reading	Better than forecast?	Better than prior reading?
US Economy	GDP QoQ Annualized	29-Apr	0.2%	1.0%	2.2%	X	X
	ISM (manufacturing)	01-May	55.7	52.0	51.5	√	√
US Employment	Initial Jobless Claims	30-Apr	262,000	290,000	295,000	√	√
	Change in Non Farm Payrolls	03-Apr	126,000	245,000	295,000	X	X
US Housing	Pending Home Sales (YoY) %	29-Apr	13.4%	5.1%	12.0%	√	√
	Case Shiller Home Price Index	28-Apr	173.67	173.13	172.9	√	√
	New Home Sales	23-Apr	481,000	515,000	539,000	X	X
US Consumer	Advance Retail Sales (MoM)	14-Apr	0.9%	1.1%	-0.6%	X	√
	Conference Board Consumer Confidence	28-Apr	95.2	102.2	101.3	X	X
	University of Michigan Consumer Confidence	17-Apr	95.9	94.0	93.0	√	√
Europe	Eurozone Consumer Confidence	30-Mar	-3.7	-3.7	-3.7	X	X
	German IFO (Business Climate)	21-Apr	108.6	108.4	107.9	√	√
	German PMI Manufacturing	23-Apr	51.9	53.0	52.8	X	X
	German Retail sales (YoY)	30-Apr	3.5%	3.1%	3.6%	√	X
	German GDP (QoQ)	13-Feb	0.7%	0.7%	0.7%	X	X
UK	Nationwide House Price Index (YoY)	29-Apr	5.2%	4.1%	5.1%	√	√
	GDP (QoQ)	28-Apr	0.3%	0.5%	0.6%	X	X
China	Consumer Price Index (YoY)	10-Apr	1.4%	1.3%	1.4%	√	X
	Chinese Real GDP (YoY)	15-Apr	7.0%	7.0%	7.4%	X	X
	HSBC PMI Manufacturing	23-Apr	49.2	49.6	50.7	X	X

Source: Bloomberg

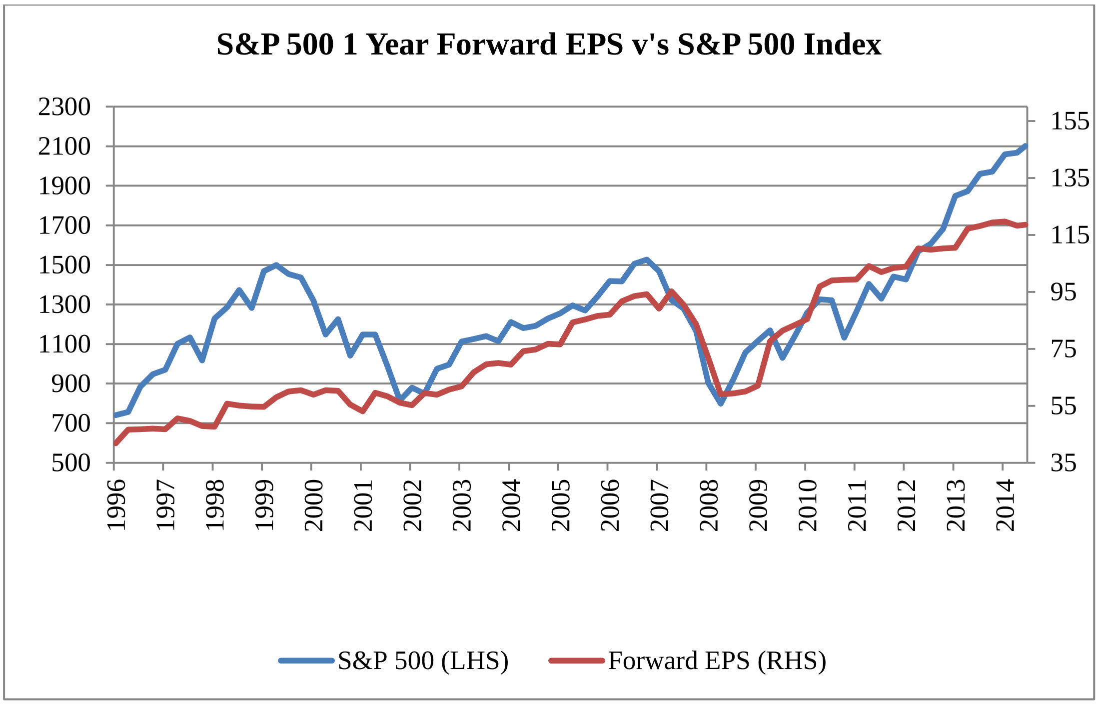
Equity Market Valuations

US corporate earnings, having rebounded sharply in 2009 and 2010, have continued to grow at a solid, if slightly slower, pace since then. US share prices, however, have continued increasing at almost the same pace as 2009 and 2010 with the S&P 500 benchmark index having almost trebled in value since the bottom of the market in early 2009.

Valuing company shares using a multiple of earnings should also take account of long term interest rate expectations. US stock market levels have in general, however, closely tracked the earnings expectations of the largest companies over the last twenty years. There have been two notable exceptions to this: the dot-com bubble of the late 1990s and the current bull market.

An argument can be made that the new super-low interest rate environment, that appears to be here for the medium term at least, warrants an adjustment in price / earnings valuation bases. A similar adjustment was seen in the early 1980s when the high inflation of the late 1970s was ended by the Fed under Paul Volker. The subsequent bull run (1982-87) saw the US stockmarket increase by almost 130%. A key difference, however, is that US corporate earnings also increased dramatically in the mid-1980s. The US economy also averaged growth of 4.6% between 1983 and 1987 compared to the current forecasts of about 3%.

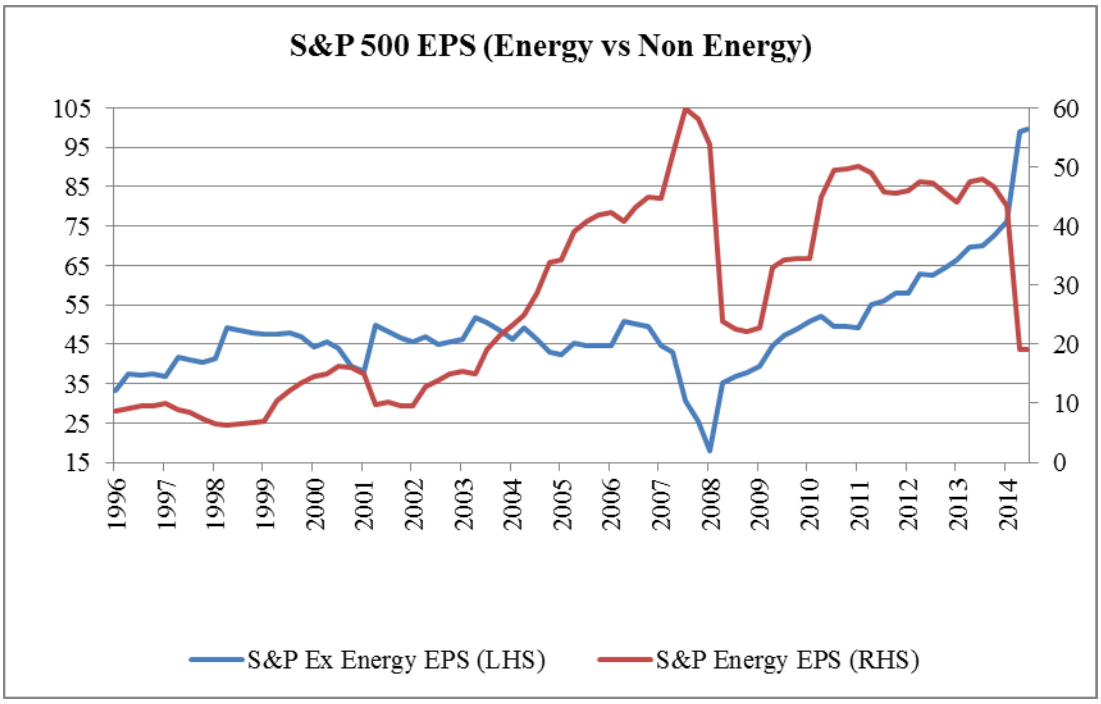
Overall, we feel that the increasing dislocation between the US stockmarket and underlying company fundamentals offers little investment value at these levels.



Source: Wellesley I&P and Bloomberg

Q1 Earnings Update

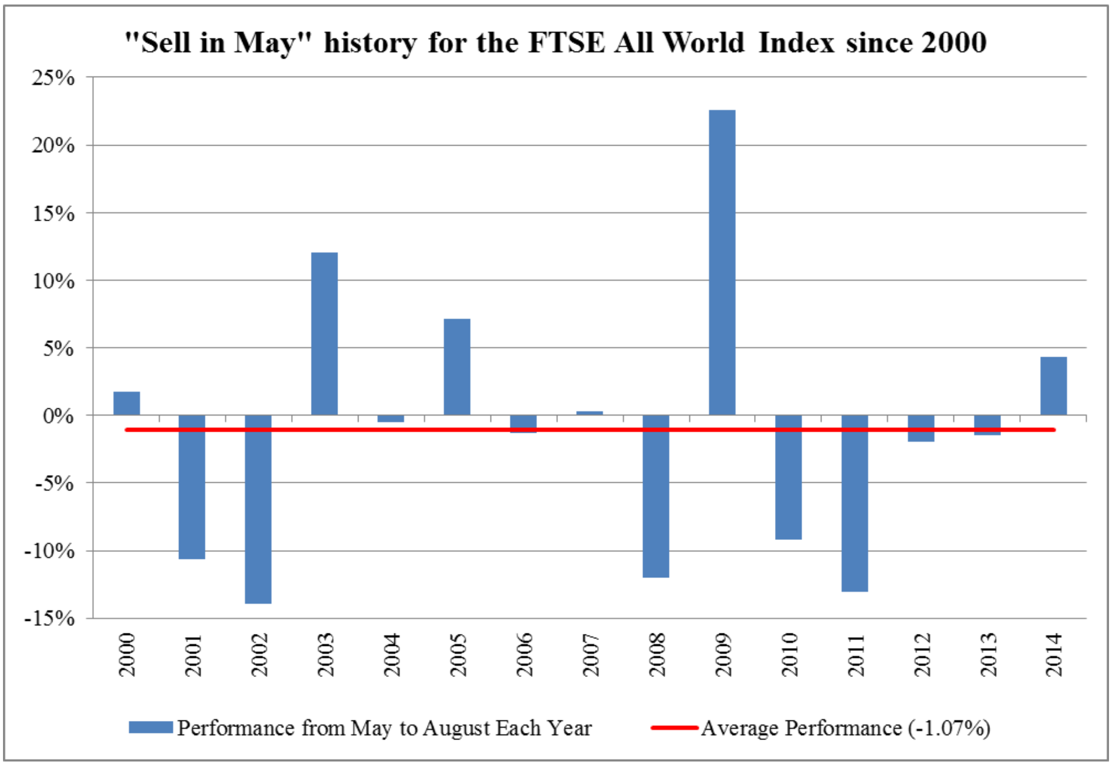
Of the 40% of S&P 500 companies who have reported their Q1 earnings, 73% beat earnings estimates. However, 53% of the reporting companies missed top-line revenue forecasts. Cost cutting and lower investment again accounted for much of the growth in the bottom line. For the year to date, the blended earnings decline of 2.8% and the blended sales decline of 3.5% are the largest declines seen since Q3, 2009. These aggregate numbers are, however, heavily influenced by the turmoil in the energy sector following the collapse in the oil price. If this sector is excluded, earnings have increased by 5.6% in Q1with Healthcare and Financials among the strongest contributors.



Source: Wellesley I&P and Bloomberg

"Sell in May - Go Away"?

High valuations, the lack of robust growth to support corporate earnings and monetary policy uncertainty all point to caution on equity markets over the summer, a time of traditionally lower volumes and on average weaker performance. If we look at the performance of the FTSE World Equity Index over the last 15 years, markets fell more than they increased from the end of April to August almost two out of every three years.



Source: Wellesley I&P and Bloomberg

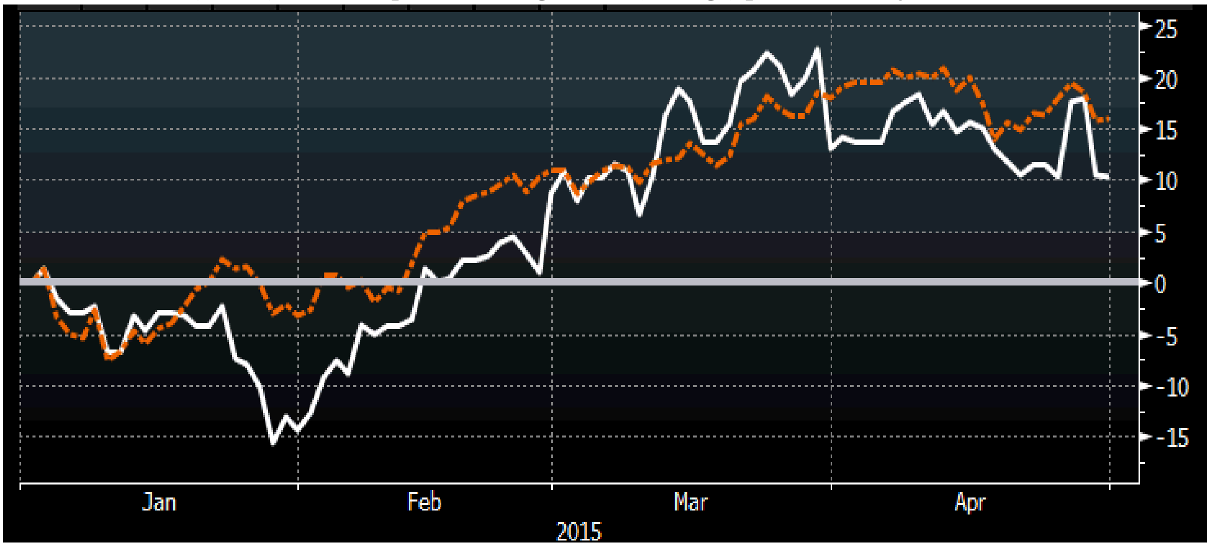
Bank of Ireland

Bank of Ireland released its latest Interim Management Statement on 29 April ahead of its 2014 AGM. The general environment in which the bank is operating remains very favourable. The bank's net interest margin increased over December 2014 levels. Asset quality continues to improve with the bank noting the strength in the UK and Irish economies.

On the downside, the bank disclosed a €700m increase in the cost of their defined benefit pension scheme in Q1 2015 as the discount factor fell in line with European yields. This caused a 0.2% decrease in the bank's capital. While not immediately impacting on the bank's profitability, the deficit will affect the bank's capital position and may impact its ability to pay a dividend. The market currently expects the bank to return to distributing a dividend in 2017. Overall, the bank's core business continues to perform well with profitability continuing to improve. We view the increase in pension costs as being a temporary issue as we expect Eurozone bond yields to mover to rise over time, reducing the value of its pension liabilities.

Bank of Ireland has underperformed the European banking sector year to date and has seen little recognition from the market for its exposure to faster growing UK and Irish economies.

Bank of Ireland (White) and European Banking Sector (Orange) performance year to date



Source: Bloomberg