Market Commentary July 2015

Investment Markets in July 2015

Highlights

- Equities gained in July as markets reacted positively to Greece's capitulation to creditor demands at the start of the month and acceptance of a package of preconditions to enter talks on a new bail-out programme.
- Bonds also gained on the Greek news as investors anticipated a longer period of low interest rates and continued quantitative easing by the ECB.
- Commodity markets fell on concerns that the recent correction in the Chinese stockmarket may spill over into Chinese demand for basic resources.

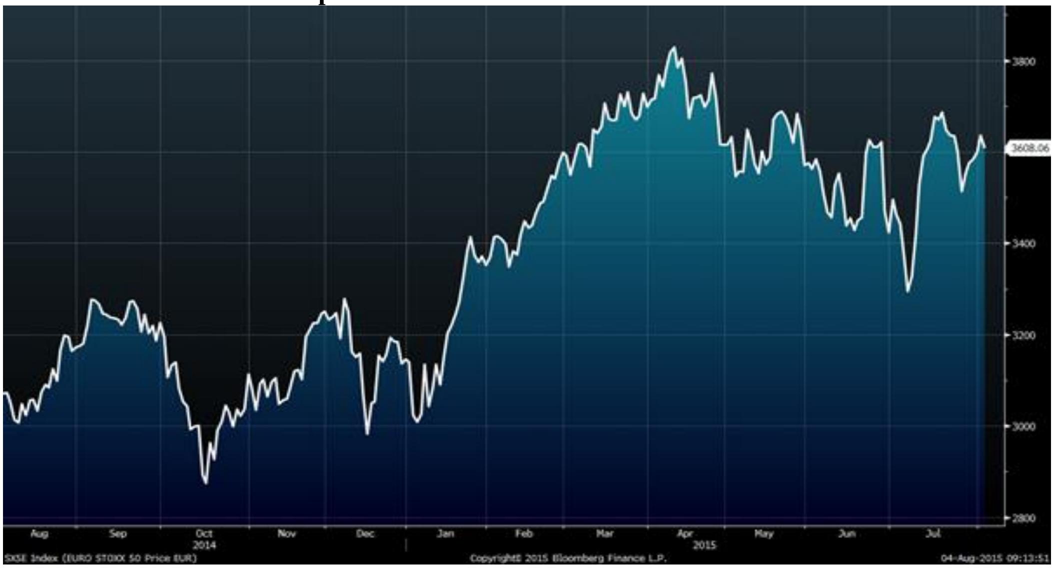
Investment Market Performance

	Year to Date		July - 2015	
Index	**In local Currency (%)**	**In € %**	**In local Currency (%)**	**In € %**
ISEQ Index	24.7%	24.7%	5.6%	5.6%
FTSE 100	2.0%	12.6%	2.7%	3.6%
Eurostoxx 50 Index	14.4%	14.4%	5.2%	5.2%
S&P 500	2.2%	12.5%	2.0%	3.5%
Nikkei 225	18.0%	25.6%	1.7%	2.1%
FTSE All-World	2.4%	12.8%	0.7%	2.2%
Oil	-11.5%	-2.6%	-20.8%	-19.6%
Eurozone Government Bonds		1.2%		2.5%
USD / Euro		10.1%		1.4%
GBP / Euro		10.5%		0.9%

Greece

On 13 July, the Greek government finally accepted a package of measures presented to them by Eurogroup leaders as a precondition to being allowed to re-enter talks on a new bailout programme. Markets at the start of the month had been dominated by the increasing probability of a Greek exit from the single currency. The capitulation by the Syriza government marked at least a stay of execution from a so-called "Grexit" and, possibly, an important acceptance by the Greeks that the pain of exit may be worse than further austerity.

Eurostoxx 50 Index of European Shares – Last 12 Months



Source: Bloomberg

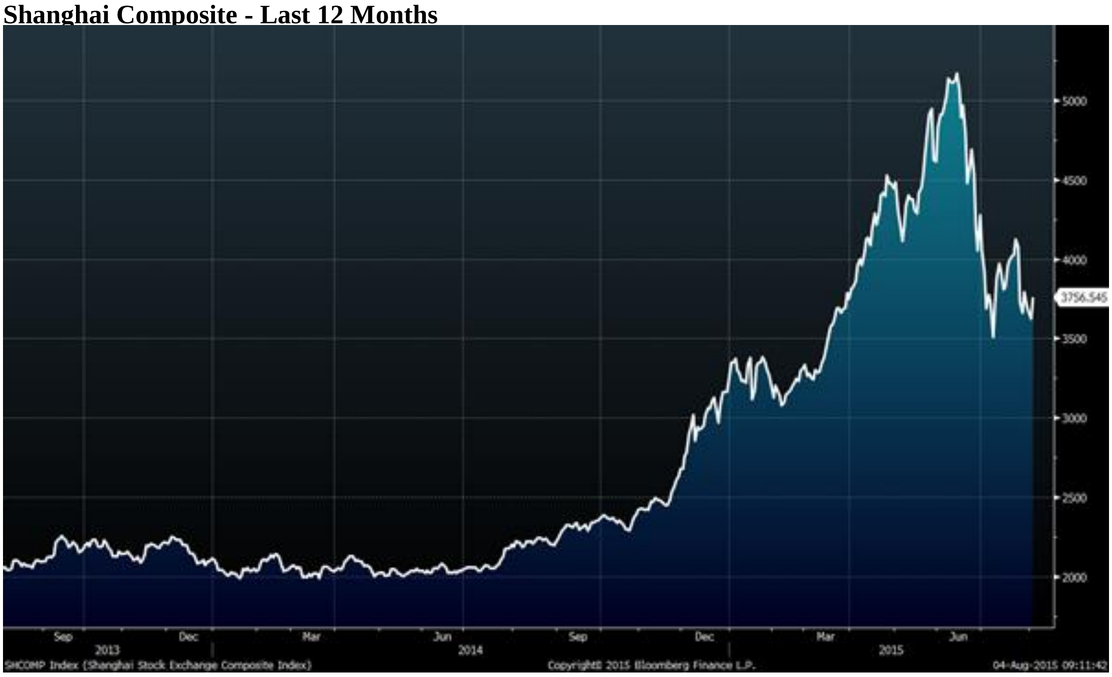
The agreement by the Greeks to immediately implement specific changes to pension rules, VAT and health contributions and the successful passing of these controversial measures in the Greek parliament saw European equities and bonds rally sharply over the rest of the month.

We continue to see a high probability of Greece ultimately leaving the single currency. Without a significant writing off of Greece’s huge national debt, we see little prospect of the new bailout programme being successful. While the prospect of an explicit write-down of debt has been broadly dismissed by Eurozone leaders, the idea of “re-profiling” or extending the term of the debt on a low interest rate has been discussed even by Germany. If the term to maturity of Greece’s debts were to be extended significantly, this would effectively achieve a writing-down of the present value of its obligations and would, in our view, provide a more realistic path to recovery within the Eurozone. Unfortunately, political events within Greece may dictate the direction Greece takes before Eurozone policymakers manage to construct a long term solution that is acceptable to all the member states.

China

Having gained 50% between the start of the year and mid-June, the main Chinese stockmarket index, the Shanghai Composite, has since fallen almost 30%. Most analysts ascribe the speed and depth of the correction to the dominance of retail investors in trading volumes. A dramatic increase in leverage used to speculate on shares also resulted in margin calls after the initial stockmarket falls, driving further forced selling in the market. Government intervention seems to have had some role in stemming the tide with enforced trading breaks for hardest hit stocks and restrictions on short-selling providing more orderly trading. In the main trading centres outside China, concern has focussed on the possible impact of the crash on the already slowing Chinese economy and, in particular, on China’s demand for luxury goods and commodities.

Shanghai Composite - Last 12 Months



Source: Bloomberg

Volatility in Commodity Markets

The Chinese stockmarket peaked in mid-June. Since then, commodities across the board have fallen sharply. Oil is down 20% while copper and iron ore have fallen 12% and 10% respectively. Agricultural commodities have also been weak, although it is not clear how much of this is due to worries regarding China or the relatively benign weather conditions coming into the North American harvest season.

Copper Futures Price – Last 12 Months

Source: Bloomberg

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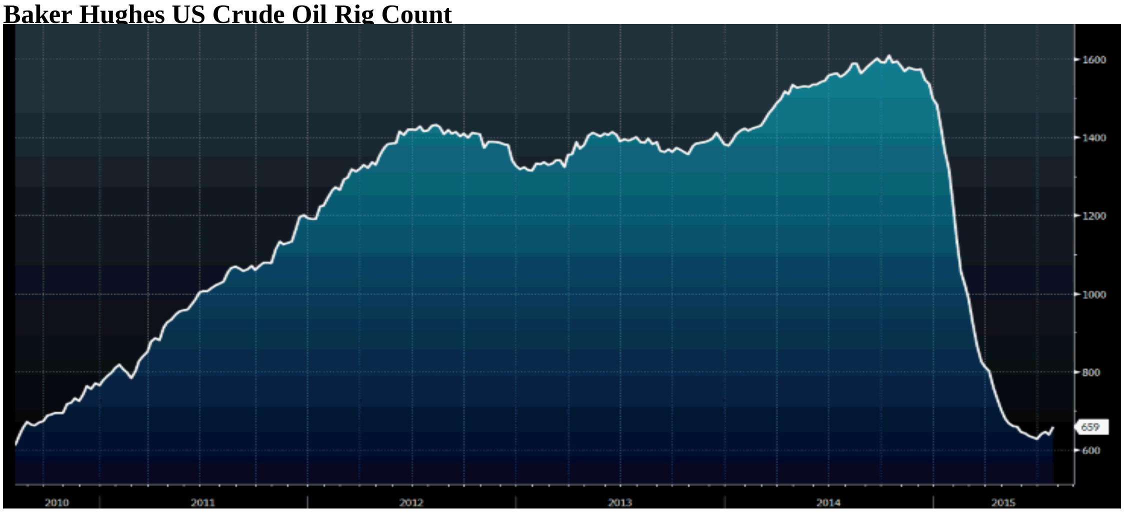
Oil fell sharply in July with WTI crude falling 21% over the month from $58 per barrel to $46 per barrel. The move in oil appears to be largely down to technical factors including a more rapid building of inventories than expected over recent weeks. A slight rebound in the US rig count also worried oil investors as pressure on marginal suppliers had been expected to remain severe even after the recovery in the oil price last Spring. The Baker Hughes Rig Count saw an increase in US rigs from 628 in June to 659 at the end of July.

Baker Hughes US Crude Oil Rig Count



Source: Bloomberg

The conclusion of a significant agreement between Iran and the major Western powers on 14 July didn't help sentiment towards oil with sanctions expected to be lifted in the short term. While analysts expect that Iranian exports to the West may amount to as much as 1 million barrels per day, this extra supply had been largely anticipated since a preliminary agreement was reached earlier in the year. Most of the additional supplies will effectively be a diversion of supplies from other Iranian export markets where sanctions were not imposed effectively.
General weakness across commodities due to fears of weaker Chinese demand was also a factor in the fall in the oil price.

Generic WTI Oil Future – Last 12 Months

Source: Bloomberg

While commodity markets have been under pressure all year, we believe that at current levels most commodity markets represent attractive value. We see particular value in food commodities given the high probability of an El Nino super event and the possibility of disrupted harvests in the Southern hemisphere over the next six months. We also see oil recovering from current levels as rig counts start to fall again on foot of the recent drop in prices and increase in US inventories.

Bank of Ireland

Bank of Ireland announced interim results on the last day of the month with the company comfortably exceeding analyst expectations. The bank's core business is performing exceptionally well with the recovery in the Irish economy reflected both in further improvements in asset quality (reduced impairments) and in overall demand for loans. As we expected, the bank received a significant boost on the capital side from the rebound in corporate bond yields which reduced the cost of the group's defined benefit pension scheme liabilities.

Since the publication of the results, the bank has moved higher closing on 3 August at €0.39, close to its post-crash high. We expect to see analysts upgrade the stock on foot of the recent results with further gains in the share price following.

Bank of Ireland Share Price versus the European Banking Sector – Year to Date

Source: Bloomberg