

# *Charity Investment Update*

## 30<sup>th</sup> June 2011

The second quarter of 2011 saw a shaking of the optimism which had pushed investment markets up at the start of the year. The agreement in principle to roll over Greece's maturing debt gave a boost to markets at the end of the quarter, though wider sovereign debt concerns in the Eurozone and the US continued to cause concern. Indeed at the time of writing, a downgrade of Portugal's debt rating has further increased market worries. Meanwhile, the scheduled end of quantitative easing in the US stirred debate as to the impact this would have on investment markets.

### *“Sell in May and Go Away?”*

- A traditional investing cliché suggests that investors may benefit from selling their equity positions in May, returning to the markets in September. Whatever the logic behind this view, it has been borne out thus far in 2011, as share prices hit highs in May and promptly suffered significant falls in value.
- Driven largely by Eurozone debt concerns and a slowdown in growth rates, the world market fell in May and June. A late rally in June meant that markets had a healthier end to the quarter, following a deal to avoid Greek default. At time of writing, however, markets have fallen back following Portugal's downgrade, continued uncertainty over Greece, and worries that Italy may be the next to suffer 'contagion' from the debt crisis.

### *Greek Bailout*

- An emergency deal to avoid an immediate default on Greek debt falling due in the next months was reached just before quarter end, as the austerity terms on which further EU aid was conditional were passed by the Greek Parliament on 30th June.
- The deal will see EUR 8bn in financial support released immediately, with a decision on a further EUR 12bn having been postponed.
- Suggestions by French and German banks that they would consider rolling forward their holdings of Greek debt led to indications from ratings agencies that any such move would potentially be treated as a partial default event.

### *Quantitative Easing Ends*

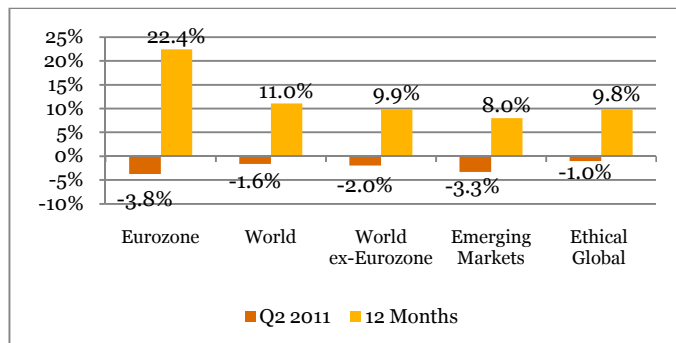
- The end of June also saw the scheduled end of the second round of 'quantitative easing,' the process by which the US Federal Reserve has spent \$600bn buying US bonds since late 2010.
- The "easing" was designed to be an easing of the liquidity pressure on banks – that by purchasing bonds from banks with newly created money, banks could use this money to provide additional loans, thereby stimulating the economy.
- Quantitative easing has had a range of effects – from the reduction in value of the Dollar to very low yields on US treasury bonds, and has also spurred investment in equities and commodities in a search for returns which were not available on bonds.
- A source of uncertainty for the future is what the impact of the removal of Quantitative Easing will be, and how it will affect the broad range of asset classes which have felt its influence, both directly and indirectly.

## Asset Class Performance

### Equities:

Slowing global growth, a fall in commodity prices and the ongoing financial difficulties of certain Eurozone countries contributed to falls in share prices around the world in May and June; despite a significant uplift at the very end of the quarter as measures were taken to avoid a default on Greek debt.

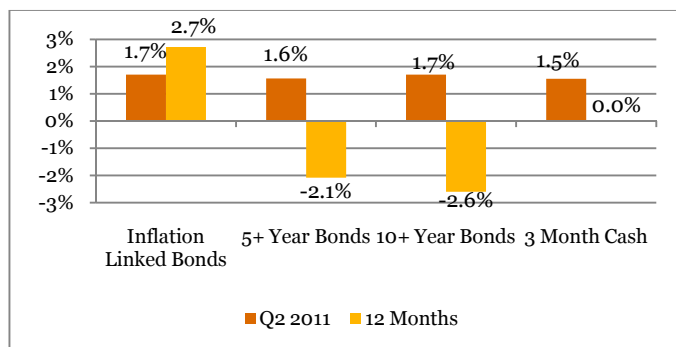
The Euro continued to strengthen against other currencies, further reducing the returns of foreign currency denominated assets.



### Bonds:

Quarter 2 of 2011 saw bond markets moving in the opposite direction to the first three months of the year, with positive returns coming from the performance of countries like Germany and France, where demand was driven by investors seeking lower risk investments.

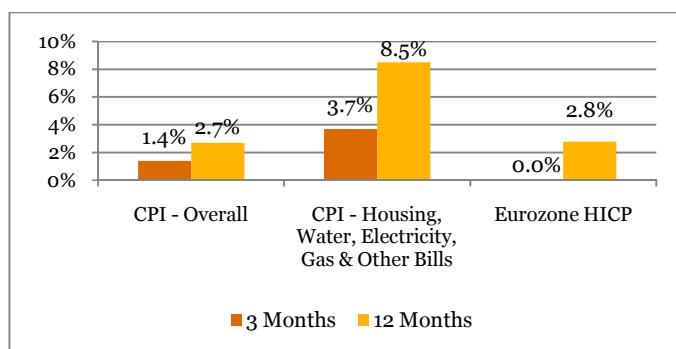
By contrast, as the Eurozone debt crisis worsened in the periphery, Greece, Portugal and Ireland saw their bond yields hit record highs. Italian bond yields also rose, signalling concern that contagion will spread to Italy.



### Inflation:

Irish inflation continues to show an annual rate of inflation broadly in line with that of the Eurozone in general, as measured by the Harmonised Index of Consumer Prices. Irish inflation has been driven in particular over the last three months by increases in the costs of mortgage repayments and home heating oil. Mortgage repayment cost increases are not included in the Eurozone HICP number.

Excluding housing costs, the rate of inflation in Ireland was 1.7% over the past 12 months.



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