

## Key points

- Major equity markets moved ahead for a third straight week, buoyed by optimism around the progress of the global economic recovery, strong corporate earnings releases, and a wave of merger and acquisition activity. As China overtook Japan as the world's second largest economy, Asian markets also advanced – supported by news that China's rate of inflation, at 4.9 per cent in January, rose more slowly than the 5.3 per cent forecast.
- The UK's FTSE 100 rose by 0.3 per cent, notwithstanding discouraging economic signals. Consumer Price Inflation (CPI) in the year to January rose to 4 per cent from 3.7 per cent the month before, and the number of unemployed increased by 44,000 to nearly 2.5 million. Inflation is testing the Bank of England's Monetary Policy Committee, with many observers believing an interest rate rise is likely this year – and this expectation pushed sterling higher, and to over \$1.62, on Friday.
- Geopolitical risk saw core bonds back in demand, and US prices rose, with corresponding yields trending down. Brent Crude rose as high as \$104 a barrel on concerns about the impact of political turmoil in the Middle East on oil supplies. However, West Texas Intermediate (WTI) has failed to keep pace – with large inventories of this grade resulting in a \$15 per barrel discount to the price of Brent Crude
- In Ireland last week it was announced that Real Estate Opportunities has agreed the sale of the Montevetro office building on Barrow Street to Google for €99.9 million. The building comprises of 210,000 square feet of prime office space in Grand Canal Dock, Dublin 2.

## Equities

- Barclays Bank reported 2010 profits of over £6 billion on the back of much reduced bad debt provisions, lifting the lender's shares by nearly six per cent on Tuesday, also pulling up UK high street rivals Lloyds and RBS. FTSE 100-listed diversified miners Anglo American and BHP Billiton both reported record profits, but their shares fell – dragging on the index as a whole – on concerns about the sustainability of current high commodity prices and future Chinese demand. Defence contractor BAE Systems shed 3.4 per cent, reporting flat 2010 sales and a challenging outlook for 2011 as the UK government trims military spending. Engineers Invensys and Weir advanced on speculation they could be bid targets, possibly from German industrial leviathan Siemens. Meanwhile, US conglomerate General Electric is to pay \$2.8bn for the oil well support

business of FTSE 250-listed John Wood Group.

- Texas-based Dell spiked up as much as 12 per cent as the world's third-largest PC-maker unveiled a forecast-beating trebling of fourth-quarter profits. French pharmaceutical group Sanofi-Aventis finally concluded a \$20bn deal to acquire Massachusetts-based rival Genzyme. Qantas reported six month net profits up four-fold, despite last year's grounding of its A380 fleet after an engine explosion, which cost around £34m – last week UK turbine maker Rolls Royce provided £56m in its full-year accounts to meet potential claims from the Australian carrier.

## Bonds

- Uncertainty around developments in the Middle East saw 'haven' flows into core bonds, reversing a recent trend for rising yields. The yield on benchmark US 10-year bonds closed six basis points lower at 3.59 per cent – even while China, the largest investor in US treasuries, continues to reduce its holdings. Despite expectations of interest rate hikes, UK 10-year yields fell by seven basis points to 3.81 per cent, while German 10-year yields were unchanged at 3.3 per cent – close to a 13-month high for 'bunds'.
- In peripheral markets, Spanish 10-year yields stabilised at around 5.4 per cent, while Portuguese securities stayed in focus as 10-year yields remain stubbornly over the seven per cent level, at 7.34 per cent – with speculation mounting that Germany is pressuring Lisbon to accept an EU-led bailout.
- In corporate markets, JP Morgan became the first US financial firm to raise so-called 'Samurai' bonds – yen-denominated debt sold to Japanese institutions – since the collapse of Lehman Brothers in 2008, raising a total of ¥111bn (\$1.33bn). Still in the sector, a \$2bn issue of contingent convertible bonds, or 'cocos', by banking behemoth Credit Suisse, was 11 times oversubscribed. These hybrid instruments convert from bonds to equity at a predefined level of financial stress, and are seen as an important tool for rebuilding banks' capital adequacy levels going forward.

Source of market data: Bloomberg and Factset

# Aviva Investors

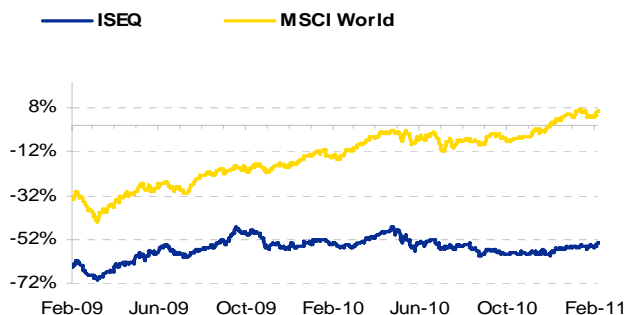
## Weekly market report

11-18 February 2011

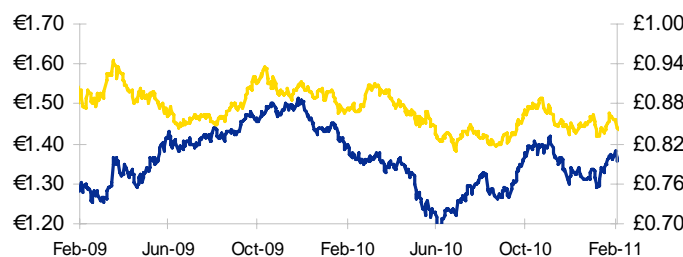


Region	Index	Index Level at 18 <sup>h</sup> February	Index Level at 11 <sup>h</sup> February	Index Level at 31 <sup>st</sup> December 2010	Change last week	Year to date local currency return	Year to date Euro return
Ireland	ISEQ	3005	2972	2885	1.1%	4.2%	4.2%
Eurozone	Dow Jones Euro Stoxx	297	294	274	1.2%	8.2%	8.2%
Europe	Dow Jones Europe Stoxx	291	288	276	1.1%	5.5%	5.5%
UK	FTSE 100	6083	6063	5900	0.3%	3.1%	5.0%
US	S&P 500	1343	1329	1258	1.0%	6.8%	4.4%
US (primarily technology)	NASDAQ	2834	2809	2653	0.9%	6.8%	4.5%
Japan	Topix	974	947	899	2.8%	8.3%	3.3%
Asia (Pacific Basin ex Japan)	FT Pacific Basin (Ex Japan)	387	380	384	1.7%	0.6%	0.6%
World	MSCI World	132	131	126	1.0%	5.0%	5.0%
	€uro - Dollar Exchange Rate	\$1.369	\$1.355	\$1.338	1.0%	2.3%	N/A
	Sterling - Euro Exchange Rate	£0.843	£0.846	£0.857	-0.4%	-1.7%	N/A
	Oil (Price per barrel)	\$102.19	\$100.39	\$94.30	1.8%	8.4%	6.0%

ISEQ versus MSCI World



— Euro-Dollar Exchange Rate (LHS)  
— Euro-Sterling Exchange Rate (RHS)



Merrill Lynch Euro Govt >5 Year Bond Index



Source of market data: Bloomberg

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