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Global Equity Markets – A Review & Outlook

What Lies Ahead?

We entered 2008 as we left 2007, with continued heightened volatility in prospect for equities, fears of a continued US economic slowdown, commodity prices reaching new highs and housing weakness coupled with poor consumer confidence in many developed economies.

We expect asset markets to remain highly volatile until the major global banks disclose the full extent of their sub-prime and credit related problems in their audited year-end accounts which is likely to occur over the next month or two. By mid-year we expect markets to have stabilised somewhat and believe the second half of the year should be characterised by more optimism.

Despite fears of a recession in the US and the impact this would have on global markets, the world economy looks fairly robust. However, we expect global growth to slow somewhat, most notably in the US and Japan.

In the US we expect negative wealth effect pressures from the slump in the housing market, and the spillover effects of the credit crisis to keep the economy under threat of, if not in, recession throughout most of the year, with the first six months of 2008 being particularly tough.

The UK economy has been remarkably resilient after a series of interest rate hikes and the general turmoil in financial markets. However, we are now beginning to see the knock-on economic effects of what appears to have been an overly aggressive interest rate tightening cycle. Declining property values and slowing consumer spending will probably ensure that slower growth lies ahead this year.

Positive Out-turns

Meanwhile, the Eurozone economy is slowing to more moderate levels after positive out-turns in both 2006 and 2007, and we now expect Eurozone economic growth to average 2% in 2008. In essence, the recent positive performance of the European economy and the Euro's appreciation versus the Dollar has led to a tightening of interest rates in the Eurozone which in turn is contributing to this gradual slowdown.

On a more positive note, we expect the emerging economies of Asia, Russia, Brazil and Eastern Europe to grow robustly, albeit at a slower pace than in 2007, as their journey towards industrialisation and higher per capita incomes continues. We still believe that the increasing wealth and higher consumer-spending of these emerging economies will remain the driving force of global consumption and economic growth over the next year or so.

In essence, we believe that global growth will remain firm despite a general slowdown in the "developed world"; however we think that global monetary authorities have the ability to re-ignite their economies in a non-inflationary way by easing interest rates over the course of the year.

Interest Rates & Currencies

The effects of the credit crunch, property weakness, and lower consumer spending will likely cause the major economic blocs (i.e. US / UK / Europe) to lower rates in an attempt to re-ignite growth.

We believe that despite hawkish comments from Jean-Claude Trichet, the European Central Bank will have to follow the aggressive lead given by the US monetary authorities and look

continued...

to cut interest rates during 2008. However, we do acknowledge that there are some near-term concerns about inflation trends (exacerbated by commodity prices) and therefore any loosening of ECB monetary policy is likely to occur nearer the second half of 2008.

We expect the Dollar to remain weak throughout 2008 as high borrowing, falling house prices, lower consumer spending and interest rate cuts keep pressure on the currency. We expect the Dollar to flirt with the $1.50 / €1 level in the first half of the year as the Fed cuts interest rates aggressively and capital inflows suffer. As long as currency adjustment process remains orderly, it should not pose a threat to global growth.

Equity Markets

It has been an extremely difficult start to the year with downside risks appearing at every turn. From sub-prime US housing fears, credit concerns and deteriorating financial conditions to real economic risks and stalling corporate profits. There has been no let up in accelerating downside risks since the latter half of 2007 and "standing up" against this strong negative momentum has been painful.

Equity markets now appear oversold, but could remain so for some time yet. In essence we see interest rates - specifically, aggressive action by the US monetary authorities - as providing the most likely route to higher share prices in the short-term. In addition, other influencing factors include the macro economic backdrop, corporate earnings, cheaper valuations and technical support.

While valuation levels look interesting as both UK and European equities are now trading on depressed Price / Earnings (P/E) multiples compared to the past 20 years, it is hard to place too much emphasis on valuation when earnings downside risks are high and the earnings downgrade cycle has only just begun.

However, market valuation levels do give us an idea of what downside risks the market is trying to price in. For example, UK and European equities now trade on a sub-11x 2008 earnings estimates and a 30% fall in earnings would take the P/E to around 15x, which is the 15-20 year average rating for UK and European equities. Therefore, this suggests that equity markets have already begun to price in a material earnings collapse (and US recession). In turn, this suggests that value may start to emerge shortly in UK and European equity markets.

Equity Strategy

Overall, for 2008 we believe that diversification will play a more important role in investment decisions and ensuring positive risk adjusted returns. Investors will need to be much more selective in the sectors and stocks that they choose, as the divergence in performance continues.

We believe that large cap companies will outperform small caps. Large cap companies have under performed relative to small caps in recent years and we believe that this under performance, along with their ability to withstand fluctuations in equity and credit markets better than small caps, should enable large cap companies to outperform their smaller peers in 2008.

We also favour growth stories over value plays. We expect the global economy to grow at a slower rate than we have become accustomed to, and as growth slows and becomes narrower, companies that exhibit high profit growth rates but trade on reasonable P/E multiples, will be favoured over those on lower P/E's but with lower profit growth potential.

Likewise, we favour companies with strong balance sheets, lower leverage, and greater free cash flows. As the cost of debt is set to remain relatively high in the coming months we believe that stocks with strong balance sheets will be favoured.

NCB Stockbrokers

PAY AND FILE SUMMARY

The following is a summary of upcoming pay and file dates:

Corporation Tax Filing date of return of income for companies with year ends during the month ended 30 June 2007	21 March 2008
Income Tax Income tax deadline for the return of share options and other rights	31 March 2008
Filing date of 2007 return of income	31 October 2008
Pay preliminary income tax for 2008	31 October 2008
Capital Gains Tax Payment of Capital Gains Tax for the disposal of assets Made between 01 January 2008 to 30 September 2008	31 October 2008

Third Party Information

The following forms for disclosure of third party information are now available for download from the Revenue website **www.revenue.ie**:

- Form 8-2- Return of Third Party Information by Persons in Receipt of Income of Others
- Form 8-3- Return of Third Party Information by Letting Agents and Managers of Premises
- Form 8-4- Return of Third Party Information relating to Rent Subsidies
- Form 8-A- Return of Third Party Information by Financial Institutions
- Form 8D Return of Third Party Information by Persons who act as Intermediaries in Relation to Offshore Accounts
- Form R21 Return of Third Party Information by Nominee holders of securities

New Employer Service

Revenue has recently announced a new contact number for employer queries.

With effect from 01 October 2007, employers can contact Revenue on **lo-call 1890 25 45 65**.

Revenue has also issued a new Employers Guide to PAYE for 2007. This is available on **www.revenue.ie**

Tánaiste announces the establishment of Commission on Taxation

The Tánaiste and Minister for Finance, Brian Cowen, recently announced the establishment of a Commission on Taxation, fulfiling the commitment in the Programme for Government, to review the structure, efficiency and appropriateness of the Irish taxation system.

The terms of reference for the Commission are:
Having regard to the commitments on economic competitiveness and on taxation contained in the Programme for Government, in particular, the commitments:

- to keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system,
- to ensure that our regulatory framework remains flexible, proportionate and up to date,
- to introduce measures to further lower carbon emissions and to phase in on a revenue neutral basis appropriate fiscal measures including a carbon levy over the lifetime of the Government, and consider how best the tax system can encourage long term savings to meet the needs of retirement;
- investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax.

The membership of the Commission consists of representatives from the Social Partners - representing the business, trade union, farming and voluntary sectors - the accounting and tax advisory sectors that advise private sector business, both small and large, and includes economic expertise and people who have wide experience in central and local government.

Consumer Report

Soft Commodities A long term upward trend?

Soft commodity price inflation is predicted to be at double digit levels over the coming months and beyond. The prices of certain agricultural products, often referred to as soft commodities, have increased substantially recently. Wheat and Soy beans increased in value by 75 % over the course of last year alone. This led to angry scenes in France where consumers were up in arms because the price of a baguette had surpassed the €1 level due to the soaring cost of wheat. Earlier this month 10,000 Indonesians demonstrated outside the presidential palace in Jakarta due to the rocketing price of Soy beans, the main source of protein for much of the country's poor.

Soft commodities is a term that generally refers to commodities that are grown, rather than mined. It can be further broken down in four sub categories:

Grain & Oil Seeds	Meat & Livestock	Softs	Industrials
Wheat	Live Cattle	Cocoa	Timber
Maize (Corn)	Lean Hogs	Coffee	Rubber
Soya beans	Pork Bellies	White Sugar	Cotton
Rough Rice	Feeder Cattle	Orange Juice	
Rapeseed			

So why have the prices of many soft commodities increased so dramatically and is this trend set to continue? A combination of supply and demand factors has pushed the prices of agricultural products higher.

Demand Factors

The main reason for rising demand is simply more people. World population growth is estimated at 1.17 % per annum, which is around 80 million extra mouths to feed each year. As emerging markets such as India and China grow richer, tastes tend to change and people begin to eat more meat. Ironically, meat is a very grain-intensive form of food as it takes 7 grams of grain to produce a single gram of beef.

There is also increased demand for corn and other soft commodities with the recent US focus on biofuels. In 1980, just 0.5 % of US corn was used for biofuel. In 2004, that proportion was 11 % and this year, it is likely to rise to 25 %. Although farmers have re-allocated land to respond to this massively increased demand for corn, this has failed to bring corn prices back to earlier levels while driving up prices for crops that have been pushed out.
This leads directly to the third demand issue which is what has been called the 'the war of acreage' by industry participants. Corn prices doubled in 2006 and in response to this farmers planted 93m extra acres and prices have fallen back (but only by 20 %). On the other hand, the extra land that was devoted to corn meant that less wheat and soybeans are being planted, so their prices are now trending upwards.

Supply Factors

Supply factors are also likely to push the prices of soft commodities higher as farmers struggle to find productive land. Increasing urbanisation, particularly in developing countries, has tended to eat up the supply of agricultural land. In addition, the intensive farming techniques of recent decades have tended to deplete the soil so that its productivity is waning.

Water shortages are likely to have consequences for global supply as well. Australia, for example, suffered from the worst drought in over a century last year which will have a negative effect on crop yields.

Another supply factor is that some of the largest exporters of soft commodities, such as Russia, are considering restricting the amount they export to restrain food prices in their domestic market. This could mean higher food prices globally.

The final supply factor is that there has been historic under investment in productive capacity and transport of commodities, resulting in today's inelasticity of commodities supply.

Higher food prices

We have all enjoyed food price deflation over the last 20 years. Food as a percentage of disposable income has halved over this period. It is now about 12.5 % of disposable income, compared with 25 % two decades ago. However, as a result of all of this, soft commodity production has not been keeping pace with consumption. Combine this with rising wealth and growing demand from developing countries, competition for land from biofuel crops and potential supply restrictions due to land and water shortages and we face the likely prospect of rising prices for soft commodities for the foreseeable future.

Duggan Asset Management.

Musgrave Group completes sale of British supermarkets

The Musgrave Group has recently completed the sale of 125 supermarkets in Britain. These have been sold to a number of independent retailers.

Musgrave bought the British supermarket chain Budgens in 2000 and has been offloading the stores over the last number of years. The company confirmed that the process has now been completed a year ahead of schedule. About 25 of the stores were sold as property deals with the rest sold to retailers.

Musgrave will continue to supply the stores but they will be owned and operated by independent retailers – a similar operation to that used with the SuperValu and Centra franchises in Ireland which it also owns. Musgrave also owns the British franchise for Londis with about 2,000 stores in Britain.

Musgrave pre tax profits in 2006 were €81 million with sales of €4.6 billion. The extended Musgrave family own 75% of the group with the remaining equity held by management and staff. Shareholders were paid a dividend of €15.5 million in 2006.

Bank of Ireland ends relationship with Davy

Bank of Ireland recently announced the decision to discontinue its relationship with Davy Stockbrokers. Therefore the bank's customers will no longer be able to avail of an in-branch share dealing service. The decision was made following a review undertaken in the wake of the bank's sale of the brokering firm to its management staff in 2006.

The relationship between the two companies had allowed bank customers to issue buy and sell orders for shares through their branch. According to the bank, the demand for this service had fallen in recent years as most customers preferred to deal directly with Davy or other brokers.

Allied Irish Bank continues to offer its share dealing service with its stock broking subsidiary Goodbody while National Irish Bank has recently commenced an online share trading service for its customers.

Banks introduce tough conditions on loans to developers

In an effort to minimise their exposure to the slowdown in property, a number of the largest lenders have introduced tougher lending guidelines.

Many developers are now being asked to provide a gearing of between 35% and 50%, i.e. for every €1 borrowed the developer must have assets between 35c and 50c. This is forcing the sale of landbanks to raise collateral. Some developers are also being asked to provide personal guarantees – a practice which was highly unusual during the property boom.

Some of the leading lending institutions have ordered risk reviews on large building projects they are financing. Forensic accountants and financial risk analysts are being hired to examine lending guidelines and procedures. These reviews could lead to an increase in the number of receiverships in construction and property companies.

Payzone to handle toll payments on barrier-free M50

Payzone, the mobile top-up company (formerly Alphyra) has secured the deal to handle payments for the barrier-free tolling on the M50. Motorists will be offered up to 10 different payment options including payment by mobile phone or at Payzone terminals.

The Payzone contract will cover all payment options other than the Eazy Pass chips or tags.

When barrier-free tolling is introduced in July, cameras installed on the M50 will capture motorists' registration plates. Those who have tags will be automatically charged €2.

Motorists who register "number plate accounts" with the toll website operated by Payzone will pay a toll of €2.50. These accounts can be paid with credit or debit cards.

Those who do not register will have three options to pay their toll: by credit card over the phone within 48 hours of using the road, have the toll added to their mobile phone bill or at a Payzone terminal in shops. These motorists will be charged a toll of €3.

If the M50 project proves successful, Payzone will be well-placed to pitch for other barrier-free tolling in Ireland and Europe.

Small Companies

Utilising your Technology

As little as 20% of small firms are fully utilising their in house technology. Traditionally small companies buy their computer systems, telephones, photocopiers/faxes, CCTV/Intruder alarms from 4 or 5 different sources and are not aware that all of these can be integrated in a complimentary fashion to one another. All computer and telephone cabling should be the same type (cat5 or 6) as this allows for greater flexibility and allows the company to take advantage of VOIP (voice over internet protocol) as it becomes more accessible in the coming years.

The following is a list of potential benefits

- Most servers have the potential to allow workers to log in from home or other remote locations. This can be very beneficial for owners/managers who can work a number of days away from the office without interruption to meet specific deadlines or period end procedures.
- IT administrators can allow most phone maintenance personnel access to their systems remotely to solve problems or re-program the system.
- Most of the large photo copiers have the ability to be connected to the computer system, to be used as printers or scanners. These scanners have the ability to scan 30-50 pages per minute as opposed to "flatbed scanners" which can only scan 1 page per 30 seconds. They have the ability to convert to Adobe "pdf" or "tiff" format and email to recipients in-house or to a fixed location on the server.
- CCTV can be accessed through the server "firewall" from remote locations for "after hours" observation or other purposes.
- Some servers have the capability to allow users to "fax" from individual pc's.

It is important that companies check with each "technology" supplier before purchasing any electronic item, that it will be compatible with other equipment and will help the organisation to become more efficient and save time and money in the long term.

Patents – A Genuine Tax Incentive

One of the few remaining genuine tax incentives for Irish tax resident manufacturing companies, individuals and those companies engaged in Internationally Traded Services is to 'Patent' an idea born from your company. This is a wonderful opportunity for Irish entrepreneurs to be part of a long standing government policy that continues to promote and encourage innovation and expansion of a knowledge based economy.

Tax free payments in respect of qualifying Patents have been available since the early 1970's. Numerous individuals and companies have been able to create wealth for themselves by developing and patenting technologies. These patents are then licensed to either their own companies or non-related parties and the payments arising from the license can be paid free of all income tax (subject to statutory restrictions).

In effect when people see words like Research & Development or Technology they tend to think of life altering inventions such as keyhole surgery. This is misleading because often what is a significant technological advancement can actually be a very simple invention. Take the paper-clip for example. It is hardly earth shattering technically but it performs its function perfectly. Therefore Irish businesses are often sitting on hugely valuable Intellectual Property that they do not realise is patentable. A patent is normally refered to as a 'technical solution to a technical problem'. There have been numerous manufacturers of everything from Mushrooms to Ice-Cream, Boilers to Freezers, and Pig Trough Cleaners to Sterilised Wipes, who have developed very clever technical solutions to the problems inherent in the manufacture of their very specific goods.

The people who come up with these ideas are very clever people. They do not all have PhDs and they are usually experts in their own field. They are constantly amazed when told that the seemingly obvious solutions to problems they have come up with are patentable and also more importantly hugely valuable.

Obviously the above is a relatively simplified version of all the work that goes into gaining patents. However if you are engaged in manufacturing or internationally traded services then get in touch with a patent company. It could be really worth your while.

Cruickshanks

Company Assets -v- Personal Assets

In recent times, the Office of the Director of Corporate Enforcement has been working to ensure greater compliance with the Companies Acts. One area being given particular attention is the issue of company directors using company assets for personal purposes unrelated to the company's business.

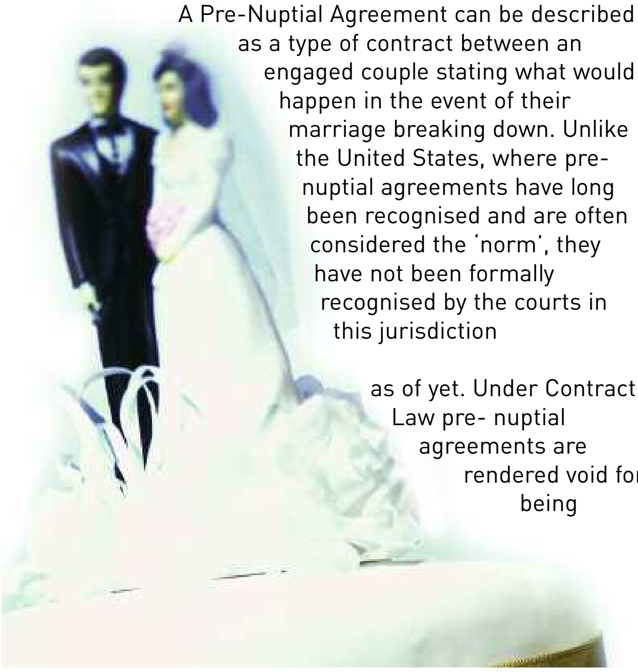
Such use of the company's assets is prohibited under the Companies Acts in order to reduce creditor losses and to ensure that the assets remain within the business to meet its ongoing commitments or are otherwise available for proper distribution in the event of its liquidation.

There are, however, a number of exceptions to the general rule that directors are prohibited from using company assets for personal purposes. These are:

- arrangements not exceeding 10% of relevant assets
- arrangements approved by special resolution and accompanied by a statutory declaration describing the circumstances
- arrangements between group companies
- directors' expenses properly incurred in developing the business and transactions made in the ordinary course of business

Non-compliance with these rules could result in prosecution of the directors and other relevant persons or High Court proceedings may be taken to remedy the default. Legal action is likely to be taken where evidence suggests that the directors knowingly breached the law, the total amount of the transactions was large or where there was persistent default.

Pre- Nuptial Agreements



A Pre-Nuptial Agreement can be described as a type of contract between an engaged couple stating what would happen in the event of their marriage breaking down. Unlike the United States, where pre-nuptial agreements have long been recognised and are often considered the 'norm', they have not been formally recognised by the courts in this jurisdiction

as of yet. Under Contract Law pre- nuptial agreements are rendered void for being contracts subverting the sanctity of marriage.

However, in recent times there has been an increased interest in the issue of 'Pre-Nups' and the role they could play as a means of wealth preservation and also as a way of bringing about some certainty in divorce proceedings.

Because of the changing attitudes towards marriage in Ireland the Department of Justice has proposed setting up an expert group to advise the Government on whether, and to what extent, pre-nuptial agreements should be recognised by the Irish courts in the future.

Bail Reform

The concept of bail is based on the principle that the accused is presumed innocent until proven guilty. In addition, because of delays in the court process, judges are reluctant to jail suspects indefinitely. However, Section 2(1) of the Bail Act, 1997 provides:

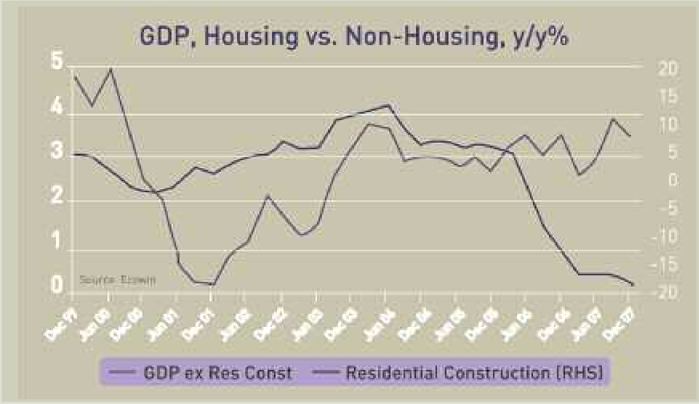
"Where an application for bail is made by a person charged with a serious offence, a court may refuse the application if the court is satisfied that such refusal is reasonably considered necessary to prevent the commission of a serious offence by that person".

Bail laws in Ireland have been the subject of much scrutiny in recent times. The newly enacted Criminal Justice Act, 2007 introduced more stringent laws regarding the issue of bail. The 2007 Act was brought into force in response to the increased number of 'gangland' killings the country has witnessed in the last few years. The unveiling of the 2007 Act caused much controversy, and in relation to bail, Sections 6 and 11 attracted the most criticism. Section 6 states that the applicant for bail will be required to provide a statement of his or her assets and income as well as details of his or her previous criminal record and details of previous applications for bail. Of perhaps even greater significance is Section 11 which provides that those granted bail may be subject to electronic monitoring to ensure they are complying with the conditions set down by the Court. This has caused particular debate because of the implications it could have for the Constitutional right to bodily integrity.

$US & Dollar Investments

The US is the world's largest economy, accounting for 21% of global output. Thus, the performance of the US economy always and understandably attracts considerable attention both within the US as well as internationally. And US growth has received much attention already this year, with some recent indicators casting doubt over the economy's health. While growth risks have clearly risen of late, suggestions that the economy has already entered a recession look extreme.

A major issue facing the outlook for the global economy and indeed the global financial markets in 2008 is what happens to the US economy this year. And recent economic data do give rise to some concern on this front. One area of particular weakness within the US is of course the housing market. The market began to turn down in late 2005 as higher interest rates brought an end to a multi-year boom. And housing activity has contracted sharply since then. Residential construction, which accounts for around 5% of US GDP, turned negative in the first quarter of 2006 and has remained in negative territory ever since. The latest set of full US GDP numbers we have are for the fourth quarter of last year. They clearly show the extent of weakness in housing activity with residential construction down a considerable 18% on year-earlier levels. But arguably even more noteworthy was the performance of the economy outside of housing which showed very solid growth of 3.5%. In fact, this is well above the average pace of non-housing activity seen over the past ten years. So despite a significant correction in housing output, the broader economy was showing tremendous resilience, up until the end of last year at least.



The latest data show that housing remains very weak, with housing starts for example, hitting their lowest level since 1991 in December as a tightening of credit conditions in mortgage markets has sparked another leg-down in housing. And concerns about the spill-over from weak housing into the broader economy have risen. In particular, in early January we got weak reports on the manufacturing sector and the labour market, with a spike in the unemployment rate to 5% in December from 4.7% in November. These developments prompted a number of observers to declare that the US has already entered recession. But a number of points need to be made on this score. First, the weakness in manufacturing activity looks to have been exaggerated by that early-January report, as the February update bounced back sharply, more than fully reversing the previous month's losses. Similarly, the unemployment rate edged lower in January, back down to 4.9%. While construction and manufacturing have been losing jobs in recent months, the much more important services sector, which accounts for 80% of the economy, continues to hold up. Job creation in services has averaged almost 100k per month in the past three months – that's down a bit from the 130k average seen in '07, but still a reasonable performance nonetheless. Furthermore, the latest survey-based measure of overall activity in the services sector is well above levels seen in the last recession in 2001 and points to continued expansion, albeit at a slowing pace.

It is clear from the latest data that recession risks have risen in the US of late and that the troubled home-building sector continues to dampen overall economic growth in the US. But it is important to note that just because one relatively small sub-sector of the economy is going through a period of pronounced weakness, it does not mean that the overall economy is mired in the doldrums. Furthermore, it would be wrong to ignore the impressive resilience which the economy has shown to date in the face of a severe housing correction – the US could well defy the forecasts of the pessimists who are calling for recession this year.

Ulster Bank
Capital Markets