



## Global Overview

- Equity markets were flat to down last week, with no clear direction being provided by a mixed bag of quarter four earnings' announcements and equally mixed economic releases. The oil price also remained stubbornly high this week, trading above \$48 per barrel.
- In the US, the Fed's Beige Book suggested that the pace of economic activity continued to improve in the November to January period. However, the Philadelphia Federal Reserve's business outlook survey and the University of Michigan confidence survey both were weaker than expected.
- On currency markets, the dollar maintained its recent relative strength versus the euro. Figures showed that inflows to the dollar in November were the highest for nine months, as international investors bought US assets in the aftermath of the presidential election. A further boost was provided by talk of US companies availing of a year-long tax break to repatriate foreign earnings. Johnson & Johnson says that it will repatriate \$11 billion.
- The quarter four earnings' season continued with some high-profile companies releasing figures. Notable disappointments came from eBay and Qualcomm, while IBM produced good numbers. In Europe, fears were raised that Nokia's numbers, due this week, would disappoint when Finland's Perlos, which manufactures handset casings for Nokia, issued a profit warning.

| Market    | Index                                | Year to Date Return<br>31.12.04 to 21.01.05 |           | 1 Week Return<br>14.01.05 to 21.01.05 |           |
|-----------|--------------------------------------|---|-----------|---------------------------------------|-----------|
|           |                                      | Local Currency<br>%                         | Euro<br>% | Local Currency<br>%                   | Euro<br>% |
| US        | S & P 500                            | -3.6  | 0.1       | -1.4                                  | -1.1      |
| US        | NASDAQ                               | -6.5  | -2.9      | -2.6                                  | -2.3      |
| Europe    | FT/S&P Europe Ex. U.K.               | 0.3   | 0.3       | 0.0                                   | 0.0       |
| Ireland   | ISEQ                                 | 4.8   | 4.8       | 1.1                                   | 1.1       |
| UK        | FTSE 100                             | -0.2  | 1.6       | -0.4                                  | 0.5       |
| Japan     | Topix                                | -1.5  | 2.0       | -1.2                                  | -1.5      |
| Hong Kong | Hang Seng                            | -5.3  | -2.0      | -0.1                                  | 0.2       |
| Australia | S&P/ASX 200                          | -0.2  | 2.1       | -0.4                                  | 1.5       |
| Bonds     | Merrill Lynch Euro over 5 year Govt. | 1.4   | 1.4       | 0.0                                   | 0.0       |

## Equities



### USA

- eBay provided the biggest disappointment of the week when its quarter four earnings and guidance both underwhelmed the market. The stock fell 19% in the following session and finished the week down 18%.
- Qualcomm also disappointed, with guidance that was below analysts' previous forecasts. Motorola and Citigroup, the world's largest financial services company, both said that earnings would be at the lower end of estimates.
- On a more upbeat note, IBM beat expectations for the second quarter running, thanks to strong sales of software and services.



### Europe

- European markets were broadly unchanged on the week, with the IT sector under-performing. Nokia fell 5.9% as one of its suppliers, Perlos, issued two profit warnings during the last week. Nokia is due to release quarter four numbers later this week.



## Europe

- Ericsson and Infineon also fell over the week, the latter by 4.9%, as it has warned that it will miss market expectations for the October to December period.
- The UK market fell slightly, despite take-over rumours circulating about a wide number of companies. Wolseley enjoyed a strong week, rising 8.6% in the wake of strong trading results.
- Tesco fell 2.9% on Tuesday on profit-taking, despite the release of numbers suggesting that it had traded excellently over the Christmas period.



## Ireland

- The Irish market rose on the week, hitting a new all-time high on Wednesday, eclipsing its previous best, set in June 2001. The overall market capitalisation of the ISEQ Index hit the €84 billion level.
- Grafton continued its fine run, rising a further 6.5% on the week. It is now up over 20% on the year to date, in the wake of its recently approved take-over of rival operation, Heiton Group.



## Pacific Basin

- Asian equity indices were little changed last week despite higher oil prices and some disappointing earnings reports from US companies.
- Sony surprised the market with a profit warning due to prices for its electronics products falling faster than expected.

## Eurozone Bonds

- Eurozone bond prices surged to new highs in the first half of the week, before succumbing to some profit-taking. There was little news of note on economic fundamentals and the Merrill Lynch over 5-year bond index was unchanged on the week.

## Global Outlook

- Activity in the global economy remains reasonably strong, although the forward indicators suggest some slowdown over coming months. The effects of last year's one-third rise in oil prices seem limited to date, but policymakers will remain vigilant during 2005.
- The Federal Reserve raised rates from the emergency 1% level last year, ending the period at 2.25%. For 2005 investors anticipate further 'measured pace' increases and will be looking to the Fed meeting early next month to validate those expectations.
- In the eurozone, the ECB has kept rates flat at 2% for a prolonged spell now, notwithstanding currency strength and subdued to weaker economic data. Investors and the ECB still anticipate an upward bias to rates during the year, notwithstanding the latest ECB comments, which have been less hawkish than before. Continued low ECB rates and well-behaved inflation could continue to underpin eurozone bonds in 2005.
- Equities have started the year somewhat sluggishly, following the strong returns of the fourth quarter of 2004. US technology sector earnings' announcements in the past two weeks have disappointed and this has dampened sentiment somewhat. In contrast, non-tech earnings to date have been slightly better than expectations. Corporate profit growth globally for 2005 is expected to be in the order of 10% and this is likely to underpin equity markets.
- Currently, the funds are overweight bonds and equities versus the manager average. Sector-wise the funds are overweight basic industries, resources and financials, while underweight some of the more defensive sectors, such as healthcare. In geographical terms, the funds continue to be neutral the UK and Japan, underweight the US, while overweight Europe and the Pacific Basin.