



Global Overview

- The euro took a battering last week in the wake of the rejection of the EU Constitution by voters in France and the Netherlands. The currency fell by 2.8% against the dollar, 3% against the yen and 2% against sterling.
- Markets also took a dim view of French President, Jacques Chirac's decision to replace his prime minister with close ally, Dominique de Villepin. He is seen as significantly less economically reform-minded than his rival, Nicolas Sarkozy.
- Economic news was also disappointing on both sides of the Atlantic. In Europe, a contraction in eurozone manufacturing and a sharp slide in German retail sales were compounded by the ECB cutting its forecast for economic growth for 2005 and 2006.
- In the US, both the Chicago manufacturing purchasing managers' index and the National Institute of Supply Management manufacturing survey fell to two-year lows.
- This was compounded on Friday by much weaker than expected employment numbers for May. Non-farm payrolls rose by just 78,000, less than half the consensus forecast.
- Oil and other commodity prices rose on the week, oil rising 6%.

Market	Index	Year to Date Return 31.12.04 to 03.06.05		1 Week Return 27.05.05 to 03.06.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.3	9.5	-0.2	2.8
US	NASDAQ	-4.8	5.7	-0.2	2.8
Europe	FT/S&P Europe Ex. U.K.	6.7	6.7	1.1	1.1
Ireland	ISEQ	1.6	1.6	0.9	0.9
UK	FTSE 100	3.8	8.9	0.3	2.6
Japan	Topix	-0.2	5.2	1.4	4.4
Hong Kong	Hang Seng	-2.9	7.6	0.8	3.7
Australia	S&P/ASX 200	3.5	10.7	1.9	3.8
Bonds	Merrill Lynch Euro over 5 year Govt.	5.9	5.9	1.2	1.2

Equities



USA

- Equity markets in the US were flat on the week, though the currency movement meant good gains for eurozone investors.
- Carmakers General Motors and Ford attracted adverse publicity last week, both reporting a slump in sales as foreign manufacturers continue to eat into their domestic market. GM ended the week down nearly 3%.
- Contrasting fortunes for two of the leading names in the technology sector saw Apple fall 7% after the company announced terms of a settlement with investors who had launched a class-action lawsuit over defective iPod batteries. Google, meanwhile, added 7% on the week.



Europe

- While the news from France and the Netherlands may have rocked the euro during the week, European equities, particularly export-oriented stocks, performed well.
- Carmakers led the way, with Fiat the best of them, up 9% on the week. Porsche, Volkswagen, BMW and Daimler-Chrysler were also up.
- Semiconductor stocks also stood out, Infineon rising 4.4% and STMicroelectronics adding 5%.
- Unicredito confirmed that it is in talks with German bank, HVB, giving rise to a flurry of takeover rumours early in the week. Commerzbank rose 4% as investors bet that it could be a target.



Ireland

- The ISEQ Index rose 0.9% on the week, with strong performances from Ryanair and Paddy Power, Ryanair reporting first quarter numbers that beat analyst expectations.
- Élan was hit with further bad news on its Tysabri drug, causing the stock to dip sharply.



Pacific Basin

- Hopes that US interest rate rises may soon come to an end provided strong support to Asian markets. Australia and Singapore both rose nearly 2% on the week.
- Oil and commodity prices firmed again on the week, helping stocks in those sectors to rise.

Eurozone Bonds

- Eurozone bonds enjoyed a strong week, rising over 1%. Yields hit generational lows amid gloomy economic data in Europe and the US.
- There has been increasing speculation about an interest rate cut in the eurozone (see below), while the signs appear to be that the series of rate rises in the US may be close to an end.

Global Outlook

- The global economy has continued to slow from last year's robust pace, with many of the recent data disappointing expectations. Policymakers remain vigilant regarding the effects of high oil prices on growth and inflation.
- We have said for some time that inflation data will remain central to the Fed's policy actions over coming months. US rate expectations have eased further in recent weeks, with markets now expecting the Fed to raise its rates by less than an additional 0.75%, from 3% currently.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. It continues to soften its rhetoric with questions of a rate cut being less stridently dismissed. Long term eurozone interest rates are at 60 year lows after the recent strong performance from eurozone bond markets. Bonds are therefore slightly stretched at the moment but remain supported by low inflation and low short rates.
- Local currency equity market returns have been quite varied so far this year, with the European markets stronger than most. The US market remains the most sluggish of the large markets, although dollar strength has compensated for this. For 2005, global profit growth is still expected to be around 10%.
- Currently, the funds are close to neutral in bonds and slightly overweight in equities versus the manager average. Sector-wise the funds' exposure to cyclical sectors such as basic industries and resources has been reduced while some defensive sectors have been increased. In geographical terms, the funds continue to be neutral the UK and Japan and close to neutral in the Pacific Basin, underweight the US, while overweight Europe.