

Weekly Investment news

Issued on 31st May 2004



Global Overview

- Equity markets had a good week, helped by an easing in the oil price to below \$40 per barrel from an intra-week peak of almost \$42.
- Sentiment was also helped by mixed economic data, on the grounds that less robust US economic growth might slightly temper the Fed's assumed rate hikes.
- At the same time global growth prospects were enhanced by a comment from the Chinese central bank that it needs further data to assess whether an interest rate rise is warranted.
- US data on consumer confidence, durable goods orders, new home sales and unemployment were below expectations, although the Chicago Purchasing Managers' Index, released on Friday, came in ahead of the previous month and well above expectations.
- The prospect of an easing in the pace of US economic growth caused some profit taking on the dollar, resulting in a strengthening of the euro to \$1.22 from \$1.20.
- In Europe, there was a jump in the eurozone inflation rate to 2.5% driven largely by higher oil prices.

Market	Index	Year to Date Return 31.12.03 to 28.05.04		1 Week Return 21.05.04 to 28.05.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	0.8	3.7	2.5	0.8
US	NASDAQ	-0.8	2.0	3.9	2.2
Europe	FT/S&P Europe Ex. U.K.	2.0	2.0	1.1	1.1
Ireland	ISEQ	5.5	5.5	0.2	0.2
UK	FTSE 100	-1.0	4.6	0.0	0.7
Japan	Topix	9.5	9.5	1.5	1.3
Hong Kong	Hang Seng	-3.7	-1.3	4.7	2.8
Australia	S&P/ASX 200	4.6	2.0	1.6	1.6
Bonds	Merrill Lynch Euro over 5 year	1.8	1.8	0.3	0.3

Equities



USA

- Unchanged oil prices and more mixed economic data helped the S&P 500 register a gain of 2.5% on the week.
- Technology stocks were the biggest gainers, helping the NASDAQ Index record an even higher rise of 3.9%.
- Retailers also out-performed, helped by strong quarterly earnings reports.
- Materials stocks gained from news that China would defer moves to slow down its high rate of economic growth.



Europe

- The bounce in US technology stocks fed through to Europe, where the sector also gained from rumours of a bid by Applied Materials for ASML, the Dutch maker of semiconductor equipment.
- Likewise retailers had a strong week, particularly in the UK, where shares in Marks and Spencer surged 28.5% on prospects of a takeover by BHS owner, Philip Green.
- Oil stocks under-performed on the week.
- Vodafone announced that it planned to buy out minority investors in its struggling Japanese operation, and the share price fell 5.9% on the week.



Ireland

- AIB made announcements about matters which have since been extensively covered in the media. The share price was down 1.9% on the week.
- Elan continued to support the market, rising an additional 6%.
- Ryanair was weak, falling 4.4% as investors awaited its annual results due this week.



Pacific Basin

- The deferral of monetary tightening in China was particularly good news for the Pacific Region where many markets made strong gains on the week, following sharp falls in prior weeks.
- Hong Kong continued its recovery, begun last week, adding 4.7%, with property stocks performing particularly well.

Eurozone Bonds

- Bond prices were helped by somewhat by weaker than expected US economic data. The rise in the euro against the dollar was also a positive for eurozone bonds. However, the announcement on Friday that eurozone inflation had jumped to 0.5% above the ECB's target rate gave cause for concern with the result that the Merrill Lynch over 5 year Bond Index ended the week only marginally higher.

Global Outlook

- The global economy remains strong although the eurozone is lagging other regions. Chinese growth is too strong for policymakers who are trying to reign in excessive borrowing and investment.
- Recent US jobs and inflation data plus high oil prices have changed the views of market participants regarding the timing of US interest rate rises.
- Fed comments suggest that rate hikes will be done in a measured fashion.
- Eurozone bonds should continue to be pressurised by weak US bonds; some respite is possible given the swift rise in rates in the past couple of months. However, it remains a difficult environment for bonds.
- Equity markets have been buffeted by concerns over the timing and pace of US interest rate rises as well as high oil prices, despite the strong economic growth and corporate earnings backdrop.
- Our current stance is neutral to slightly overweight equities – having reduced positions towards the end of April - and underweight bonds versus the manager average. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials while remaining underweight in utilities. Financials have been moved from neutral to underweight given their sensitivity to the prospect of rising interest rates, while pharmaceuticals have been increased to slightly overweight. With the exception of an overweight position in Europe, the funds have no significant geographical bias.