



Global Overview

- As expected, the Federal Reserve raised US interest rates by 0.25% and indicated that future moves on rates would be at a "measured pace".
- The ECB left eurozone rates unchanged. Indicators showed a drop in German retail sales and a slowdown in the pace of growth of eurozone manufacturing, although French growth accelerated and the eurozone employment index improved.
- The move on US rates was widely anticipated and had little market impact. Investors were more concerned by some surprises in US economic numbers which dragged equity markets lower.
- US employment data showed that non-farm payroll numbers increased by 112,000, less than half the anticipated rise of 250,000 and the previous month's growth of 235,000. There was a fall of 11,000 in the numbers employed in manufacturing, where a rise of 30,000 had been expected.
- Other economic data also struck a negative tone for equities. Unemployment claims rose unexpectedly, whilst construction spending and vehicle sales were significantly lower than anticipated.
- There was, however, some good news on the consumer side, the index of consumer confidence for June jumping to 101.9, from 93.1 in May.
- Bonds had a good week helped by the weaker US employment numbers and reassuring statements from the Fed on measured interest rate rises.

Market	Index	Year to Date Return 31/12/2003 to 02/07/2004		1 Week Return 25/06/2004 to 02/07/2004	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	1.2	3.2	-0.8	-2.3
US	NASDAQ	0.2	2.1	-0.9	-2.4
Europe	FT/S&P Europe Ex. U.K.	3.8	3.8	-0.8	-0.8
Ireland	ISEQ	10.7	10.7	1.3	1.3
UK	FTSE 100	-1.6	3.2	-1.9	-2.7
Japan	Topix	12.4	13.7	0.1	-1.9
Hong Kong	Hang Seng	-2.8	-1.4	0.3	-1.2
Australia	S&P/ASX 200	7.1	3.6	0.2	0.7
Bonds	Merrill Lynch Euro over 5 year	3.8	3.8	0.6	0.6

Equities



USA

- The S&P 500 index gave a muted response to Tuesday's interest rate rise, which was already discounted, but fell back later in the week on the surprise drop in employment growth.
- Technology stocks were generally weaker as investors became more jittery about continued economic growth. Intel lost over 2% and Yahoo fell 5.7% after broker downgrades.
- Apple Computer also had a rough week, falling 5.6% on Friday on prospects of a delay in the launch of its new iMac.



Europe

- Europe followed the US trend, weakening significantly on Friday on the back of slower US employment growth.
- Telecom stocks had a good week, helped by bid speculation on Telekom Austria, which jumped 6%. KPN, the Dutch mobile operator rose 5% as it announced that it would re-commence a share buy back programme, which analysts interpreted as ruling out a renewed offer for UK operator MMO2.
- Tobacco stocks were weaker as earnings estimates were downgraded following a trading statement from Gallaher, which fell 6.5%.
- UK food retailers fell back following a profit warning from Sainsbury's (-7%), who also announced the resignation of their chairman, Peter Davis. Supermarket group, Morrison, trading statement also warned that sales at the recently acquired Safeway would be lower, and changes in accounting policies would leave earnings substantially below market expectations.



Ireland

- The ISEQ indexed notched up a 1.3% gain on the week, thanks to a further rise of 5.9% in Elan, which announced that the US Food and Drug Administration has granted priority review status for its MS drug, Antegren. This means that a decision on approval for the drug will be made within 6 months of submission rather than the usual 10 months.
- There was also strength in Ryanair (+4.2%), which gained from improved sentiment on the European transport sector, CRH (+3.6%) and newcomer C&C (+5.6%).
- Independent News and Media held its agm, which was well received. The stock rose 3.6% on the week.



Pacific Basin

- Most Asian equity markets were little changed last week as investors digested the first increase in US interest rates in over four years. A major survey of business confidence in Japan, the Tankan, showed a further improvement in sentiment. Exporters across the region were generally down amid concern that the rise in US interest rates would dampen consumer demand.

Eurozone Bonds

- It was a surprisingly good week for bond prices as yields in both the US and eurozone moved lower even though the Fed interest rate move heralded a definite turn in the US interest rate cycle. Investors were reassured by the Fed's emphasis on a measured approach to rate increases. The surprise weakness in economic numbers later in the week was also bond positive.
- Eurozone bonds were helped by the ECB's decision to leave rates on hold. There remained concerns however that inflation was likely to remain above the ECB target of 2% for some time due to higher oil prices. Oil bounced from a two month low back to \$38.40 per barrel.

Global Outlook

- Activity levels in the global economy remain high. The eurozone has continued to be a laggard because of weak consumption in Germany. Japan is the fastest-growing G7 economy according to first quarter data. The much-watched Chinese economy is slowing from a period of torrid growth.
- Oil prices have moderated somewhat but remain at elevated levels. This factor could be a drag on growth in the future if prices do not fall further.
- The Fed has commenced its well-flagged tightening cycle, beginning with a 0.25% increase to 1.25%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures will be closely watched by both eurozone and US central banks in coming months, although the ECB's official stance is that it has no bias as to the next change in rates.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric. As before, however, if the current growth and inflation momentum is sustained, it will remain a difficult background for bond markets.
- Strong profits and earnings' revisions have validated last year's strong price gains; this year's overall performance for global equities has been more muted. Nevertheless, underlying profit strength and lower valuations than last year offer support to equity markets.
- Our current stance is neutral to slightly overweight equities versus the manager average. We have made a tactical move from underweight to neutral bonds. The funds continue to have slightly 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. As regards geographical bias, the funds are overweight Europe and have moved from underweight to neutral in the Pacific region.