

## Global Overview

- It was another poor week for many equity markets due to soft economic data from the US, terrorism fears and the continued rise in oil prices.
- The US Federal Reserve met on Tuesday and increased interest rates by 0.25%. The market had broadly anticipated the increase. The accompanying statement was optimistic, saying that the US economy was "poised to resume a stronger pace of expansion".
- Oil prices hit record levels last week, driven by numerous factors. Global demand for oil is rising at its fastest rate in 28 years. Fighting in Iraq has intensified and potential damage to Iraqi pipelines remains a constant threat. A referendum in Venezuela to decide on whether to keep the current government was also a cause for concern as a change of government could have signalled a change in oil policy. Venezuela is a member of OPEC.
- Economic data from the US failed to impress. The US trade deficit figure was surprisingly large at \$55 billion due to a weakening of exports, in particular aircraft exports. There were softer producer price inflation figures and consumer confidence data released on Friday were weaker than expected. GDP figures from Japan also disappointed.
- The large increase in the US trade deficit caused the dollar to fall back against other major currencies. The euro rose from \$1.2280 to \$1.2360.

Market	Index	Year to Date Return 31.12.03 to 13.08.04		1 Week Return 06.08.04 to 13.08.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-4.2	-2.7	0.1	-0.6
US	NASDAQ	-12.3	-10.9	-1.1	-1.8
Europe	FT/S&P Europe Ex. U.K.	-2.8	-2.8	-1.4	-1.4
Ireland	ISEQ	7.8	7.8	1.2	1.2
UK	FTSE 100	-3.9	0.9	-0.8	-1.6
Japan	Topix	5.1	3.8	-0.9	-1.9
Hong Kong	Hang Seng	-1.7	-0.6	-1.0	-1.7
Australia	S&P/ASX 200	5.4	2.1	-1.5	-1.8
Bonds	Merrill Lynch Euro over 5 year	5.0	5.0	0.1	0.1

## Equities



### USA

- The US S&P 500 Index was flat last week as the Federal Reserve tightened interest rates for the second time this year. The market is expecting two more 0.25% increases before year-end.
- The NASDAQ continued its downward trend, knocked by poor earnings' reports from Cisco Systems and Hewlett Packard. Cisco Systems saw a 41% increase in profits but warned that demand may not be as strong in coming quarters. Hewlett Packard also issued a warning about future earnings, citing low demand for chips and networking equipment and a decline in corporate technology investment.
- Dell provided some respite on Thursday when it forecasted better than previously anticipated earnings for the current quarter.



## Europe

- European stocks also had a difficult week, in particular the technology sector which fell 4%, taking its cue from downbeat earnings' reports by a number of US technology heavy-weights. T-Online, Europe's biggest internet service provider, fell 10% on the week on news of a potential broadband price war in Germany.
- Skandia, the Swedish financial group, suffered losses after it said that it would not pay any of its excess capital in dividends despite strong second quarter earnings. Investors had been hoping for a special dividend.
- In the UK, there were signs that the housing market is beginning to cool. Countrywide, the UK's biggest estate agency, announced that sales were down 25% in July. UK house prices have risen over 20% in the past twelve months.
- Barclays rose a further 3% on the back of bid speculation concerning Citigroup. HBOS is still considering a possible bid to counter the Banco Santander Central Hispano offer for Abbey National. Shares in HBOS were down 1% on the week.



## Ireland

- The Irish market out-performed on the week, largely due to a bounce in Elan. The stock was up 14% on the week.
- CRH rose due to further positive comments from analysts. UBS issued a buy rating on the stock.



## Pacific Basin

- All major Asian equity indices – with the notable exception of South Korea – dropped last week. A further rise in oil prices, a second increase in US interest rates and lacklustre Japanese growth figures all negatively impacted market sentiment. Reports of slowing economic growth in China also weighed on some stocks.
- In a surprise move, Korea's central bank cut interest rates in response to a weakening economy. The Korean equity market rose over 5% during the week.

## Eurozone Bonds

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- Bonds traded in a range last week due to weak trade deficit numbers and softer producer price inflation data from the US. Increased tension in Iraq and terrorist concerns ahead of the US presidential election also led to safe haven buying.
- Markets had already discounted the interest rate rise in the US on Tuesday and the move had little impact on bond prices overall on the week.
- While the high oil price continues to cause some concern due to the effect on inflation levels, the expected slow pace of interest rate increases, particularly in Europe, continues to be bond supportive.

## Global Outlook

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- Activity levels in the global economy remain high, although there has been some softness in recent US and Japanese data. The eurozone has been a laggard but is now back to its trend growth rate. The much-watched Chinese economy is slowing from a period of torrid growth. A high and sustained oil price should lower growth but increase inflation. So far, policy makers have been relaxed about oil's impact on both of these variables.
- The Fed has commenced its well-flagged tightening cycle, beginning with two 0.25% increases to 1.5%. 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. In addition, global growth indicators are now anticipating a loss of momentum in the pace of economic expansion, albeit from high levels.
- 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. Underlying profit strength and lower valuations than last year offer support to equity markets, while recent earnings' guidance from some US companies has been a bit disappointing. Terrorism worries and the rising price of oil have sapped the demand for equities over the past six weeks.
- Our current stance is overweight equities versus the manager average and slightly underweight in bonds. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials, and an underweight position in consumer staples, while remaining relatively neutral in other sectors. As regards geographical bias, the funds are overweight Europe and underweight the UK and the US, while the Pacific region has been increased from underweight to slightly overweight.