

## Global Overview

- The decisive re-election of US president, George Bush and strong US employment numbers fuelled a significant rally across global equity markets last week.
- Mr Bush's victory removed market uncertainty about the direction of economic policy and allowed investors to focus again on fundamentals. These turned out to be surprisingly positive on the jobs front. After months of concern that the US cyclical recovery could remain jobless, non-farm payroll data released on Friday dispelled such fears. 337,000 new jobs were created in October, more than double the expected number. The September figure was also revised upwards from 96,000 to 139,000.
- The US dollar traded poorly, losing over 1% against other currencies, falling to a low for the year. The euro strengthened to 1.29 against the dollar. Strong jobs' data and higher bond yields failed to be of support. The price action could be rationalised by fears over further increases in US government and trade deficits. Rumours of central banks selling dollars added to the weak tone; Asian central banks in particular have given huge support to the currency over recent years.
- Oil prices fell further, to just under \$50 per barrel, which represents a 10% fall over the last two weeks. An improvement in the supply outlook was the main factor behind the move. Other commodity prices moved higher, the price of gold hitting a 16 year high as it is seen as a safe haven relative to a declining dollar.
- Bond prices weakened as the rise in US jobs number increased the likelihood of a US interest rate hike this week. The ECB decided to leave eurozone rates on hold, as did the Monetary Policy Committee in the UK, where house prices have fallen 1.1% during October.

Market	Index	Year to Date Return 31.12.03 to 05.11.04		1 Week Return 29.10.04 to 05.11.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	4.9	2.0	3.2	1.9
US	NASDAQ	1.8	-1.1	3.2	1.9
Europe	FT/S&P Europe Ex. U.K.	7.1	7.1	2.6	2.6
Ireland	ISEQ	19.6	19.6	3.6	3.6
UK	FTSE 100	5.9	6.9	2.5	2.2
Japan	Topix	6.6	5.3	2.5	1.4
Hong Kong	Hang Seng	7.3	4.2	3.4	2.2
Australia	S&P/ASX 200	16.5	14.6	1.7	2.5
Bonds	Merrill Lynch Euro over 5 year Govt.	7.5	7.5	-0.1	-0.1

## Equities



### USA

- The S&P 500 Index hit its best level for 2 \_ years as sentiment turned bullish on the decisive election outcome and was reinforced by the release of positive jobs numbers on Friday.
- Consumer staples recorded some of the biggest gains on the week. Altria, which owns the world's largest cigarette maker, Philip Morris, as well as Kraft Foods announced that it is considering separating into two or three units in a bid to prevent tobacco litigation dragging down the overall value of the stock. The shares gained 12% on the week. Wal-mart, the world's largest retailer also had a good week, buoyed by results at the top end of forecasts.
- The fall in oil prices caused energy stocks to under-perform, while pharmaceuticals were also held back by fears of litigation against Pfizer in relation to its arthritis drug, Celebrex.



## Europe

- European stocks were also buoyed by better US economic data as well as strong third quarter earnings reports.
- Unlike the US, pharmaceutical stocks put in some of the best performances. Sanofi-Aventis rose 3.4% as it won US approval for wider use of its colon cancer drug, Eloxatin. In the UK, AstraZeneca (which had a broker upgrade) and GlaxoSmithKline added 4% each.
- Strong results among banking and insurance stocks underpinned significant gains in financials, with Credit Suisse rising 8% and German insurer Allianz adding 7% following a broker upgrade.
- Greek lottery operator, Opap, gained over 9% on strong earnings results.



## Ireland

- Ryanair reported better than expected first half results and gave a positive outlook. Net profit rose 18.5% to €201m., despite higher fuel costs and lower fares. The share price rose 18% on the week.
- Financial stocks were also in demand, ahead of interim results due over the next few weeks. Anglo Irish rose 6% to reach an all-time high, while Bank of Ireland was up 2.7%.



## Pacific Basin

- Investor sentiment in Asia was boosted by the Bush election victory and a further drop in the price of oil.
- Good news on the US jobs front also sustained prospects for continued strong economic growth in the region.
- In Japan, exporting stocks were higher, while banking stocks were boosted by earnings upgrades.
- The Australian market was buoyed by bid speculation on insurer AMP.

## Eurozone Bonds

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- The strong US payrolls data, released on Friday, sent global bond prices lower as investors stepped up their expectations that the Fed will raise US interest rates by 0.25% this week and that a further rise is likely in December.
- Eurozone bond prices also fell slightly, notwithstanding the decision by the ECB on Thursday to leave eurozone rates on hold and the positive impact of a stronger euro.

## Global Outlook

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- Activity levels in the global economy remain high, although leading indicators foresee a slowing in the pace of global expansion. The high oil price is a 'growth tax' for consuming nations but also boosts inflation, posing an undoubted dilemma for policymakers. Although oil has fallen 10% from the recent peak, it remains at levels that are negative for the global economy.
- The Fed has raised rates from 1% to 1.75% this year and has promised more increases at a 'measured pace'. Employment growth has been weaker than previous expansions, leading the Fed to be cautious. However, the latest jobs data has been more robust, leading to greater expectations of rate hikes both this week and in December. The ECB's 'wait and see' stance will be bolstered by the eurozone's continued sluggishness and the strength of the euro versus the dollar.
- Equity gains this year have been more modest as profits momentum seems to have peaked. In addition, the surge in oil prices has been a strong negative. Last week's firmer US jobs' report, plus further falls in oil prices, should continue to see equities outperform bonds. Year-end factors and the decisive outcome to the US election could also make investors more positive about equities over coming weeks.
- Bond markets have taken some comfort from the stance of the Fed and the ECB, well-behaved inflation data and a sense that global growth momentum has peaked. Lower eurozone growth prospects and potential for further dollar weakness act as support for eurozone bonds versus their US equivalents.
- Our current stance is overweight equities versus the manager average and underweight bonds. Sector-wise the funds are overweight basic industries, financials and utilities, while underweight some of the more defensive sectors, such as consumer staples. Resources are neutral from a prior overweight position. In geographical terms, the funds continue to be underweight the US, are neutral in the UK, the Pacific Region and Japan and overweight in Europe.