

Global Overview

- Most equity markets declined last week on the back of a rebound in the oil price and comments from US Federal Reserve Chairman, Alan Greenspan, that the US can't be complacent about its current account deficit.
- US equities were not helped by these comments and under-performed other regions over the week as a whole.
- Economic data on the week were mixed. US producer price inflation came in higher than expected. It rose by 1.7% in October, the biggest one-month jump in 15 years. US industrial production was also stronger than anticipated. However, the index of leading economic indicators in the US was slightly lower.
- Oil prices rose on Friday to \$47 a barrel as the US winter heating season gets under way. However, prices remain well below the record level of \$55 per barrel seen in October.
- The dollar maintained its all-time low of \$1.30 against the euro last week. Greenspan's comments reminded investors of one of the negative factors on the dollar's scorecard, aiding a generally bearish sentiment towards the currency.

Market	Index	Year to Date Return 31.12.03 to 19.11.04		1 Week Return 12.11.04 to 19.11.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	5.3	1.4	-1.2	-1.7
US	NASDAQ	3.4	-0.4	-0.7	-1.3
Europe	FT/S&P Europe Ex. U.K.	8.3	8.3	-0.3	-0.3
Ireland	ISEQ	22.1	22.1	-0.3	-0.3
UK	FTSE 100	6.3	6.7	-0.7	-1.2
Japan	Topix	6.3	1.5	0.5	2.6
Hong Kong	Hang Seng	9.6	5.5	0.0	-0.5
Australia	S&P/ASX 200	17.4	17.9	0.3	1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	8.7	8.7	-0.1	-0.1

Equities



USA

- The US equity market under-performed last week. Healthcare stocks declined on the back of negative comments from one of the US Food and Drug Administration's senior scientists regarding the safety of certain drugs.
- The retail sector came under the spotlight when Sears and Kmart announced an \$11 billion merger on Wednesday. The share price of both companies rose on the announcement.
- Energy stocks out-performed due to renewed strength in the oil price.



Europe

- European pharmaceuticals was the worst performing sector last week following comments from the US Food and Drug Administration that the market needs closer scrutiny. AstraZeneca's anti-cholesterol drug, Crestor, was mentioned, as was GlaxoSmithKline's, Serevent, and Roche's Accutane.
- The financial sector was the best performer on the back of possible take-over activity. Sanpaolo, Italy's third-largest bank, and Dexia, the Franco-Belgian bank, announced that they were holding "friendly and between-equals" talks.
- In the UK, Vodafone rose 1.9% after it matched market expectations by doubling its interim dividend and announced plans to increase its share buyback program.
- Dixons, the electrical goods retailer, fell over 10% when it said sales had slowed and it was prepared for an aggressive trading environment.



Ireland

- The Irish market fell marginally over the week. There was some profit-taking on Elan while the banks put in a mixed performance.
- Anglo Irish Bank is due to release results on Wednesday.



Pacific Basin

- Asian equities produced subdued returns last week. Encouraging economic data from the US and China were offset by concerns surrounding the weakening dollar.
- Japanese automakers such as Honda and Nissan were amongst the worst performers. Japanese banks, however, moved up strongly after Moody's raised their investment rating. Malaysian equities also posted gains as investors speculated on a currency revaluation.
- Lenovo Group, China's largest PC maker, dropped over 10% after reporting disappointing results.

Eurozone Bonds

- Expectations that US interest rates are likely to rise more quickly than previously thought, and higher than expected inflation data from the US, were bond negative last week. Eurozone bonds out-performed their US counterparts as the stronger euro help to keep a cap on Eurozone inflation levels.
- Bond prices continue to display impressive year-to-date returns. The over 5 year eurozone government bond index has returned 8.7% so far in 2004.

Global Outlook

- 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 14% from the recent peak, it remains at levels that are negative for the global economy.
- The Fed has raised rates from 1% to 2% 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 have been more robust, leading to greater expectations of another rate hike 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. The recent firmer US jobs' report, plus further falls in oil prices, should continue to see equities out-perform bonds. Year-end factors could also be positive for equity markets.
- 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 and bonds versus the manager average. Sector-wise the funds are overweight basic industries and financials, while underweight some of the more defensive sectors, such as consumer staples. Resources and general industrials are neutral from prior overweight positions. In geographical terms, the funds continue to be overweight in Europe, neutral in the UK, the Pacific Region and Japan and underweight in the US.