

Global Overview

- In a week which saw the collapse of the Elan share price and consequent losses for Irish equity investors, the overall trend in markets was upward as investors became more positive about the outlook for equities.
- Elan fell 79% over the week, following an announcement that it was withdrawing its new MS treatment, Tysabri, on fears that it may have contributed to the deaths of two patients. The overall Irish market fell 6%.
- Meanwhile, US economic data was consistent with strong growth of around 3.5% and was enough to lift equity sentiment, in the face of rising oil prices.
- Data on February jobs growth showed manufacturing employment up by 20,000, following a fall of 20,000 in the previous month. Overall employment growth at 262,000 was almost double the January figure but an increase in the unemployment rate took some of the shine off the data.
- There was also good news on productivity and unit labour costs which helped counter inflation concerns stemming from high oil prices. The latter rose by over 4% to \$53.78 as the severe late winter weather in the Northern hemisphere showed no sign of let up.
- The Japanese economy also showed signs of strength with industrial production up 2.1% in January, and household spending significantly higher than expectations

Market	Index	Year to Date Return 31.12.04 to 04.03.05		1 Week Return 25.02.05 to 04.03.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	0.8	3.2	0.9	0.8
US	NASDAQ	-4.8	-2.6	0.3	0.1
Europe	FT/S&P Europe Ex. U.K.	6.0	6.0	1.3	1.3
Ireland	ISEQ	1.1	1.1	-6.0	-6.0
UK	FTSE 100	4.6	7.5	0.6	0.8
Japan	Topix	3.7	4.0	2.1	2.6
Hong Kong	Hang Seng	-3.5	-1.6	-3.0	-3.1
Australia	S&P/ASX 200	4.2	7.9	2.2	2.6
Bonds	Merrill Lynch Euro over 5 year Govt.	1.0	1.0	0.2	0.2

Equities



USA

- The good news on US jobs creation triggered a welcome rally on Wall Street which pushed the S&P 500 Index to a 42 month high.
- Retail stocks had a good week helped by news of strong sales growth in February and merger activity. Federated Department Stores, the owner of Macy's and Bloomingdale's, agreed to buy May Department Stores for \$11 billion, making it the second biggest US department store company after Kmart and Sears Roebuck, which announced a merger some months ago.
- Among technology stocks, Apple was down 5.3% as its rival for online music services, Napster, raised its forecasts.
- Biogen, which is the third largest biotechnology company in the US and the manufacturing partner of Elan was badly hit by the news on Tysabri, falling over 50%. However, the broader pharmaceutical sector was boosted by an announcement by Johnson & Johnson that it will acquire Closure Medical, which makes medical adhesives, for \$370million.



Europe

- Oil stocks put in some of the best performances of the week on European markets, boosted by continued strength in crude oil prices. Statoil of Norway was up 4.6% while Spain's Repsol gained 4%.
- The bad news on Elan rocked the pharmaceutical sector but had a hidden benefit for companies with alternatives to Tysabri, notably Serono of Switzerland, which gained 24% on the week.



Ireland

- The fall in Elan had a major negative impact on the Irish market, causing the overall index to decline by 6% in what was a good week otherwise for many of the leading stocks.
- Bank of Ireland added 4.5% in response to strong overseas demand while Anglo Irish Bank was up 1.6%. CRH was up almost 2% as confirmation of jobs growth in the US boosted expectations of stronger earnings from its US operations.
- CRH also announced 2004 results which were ahead of expectations despite the impact of a declining dollar on its US earnings. Results from Fyffes and Kerry Group were also better than expected.



Pacific Basin

- The major Asian stock indices produced divergent returns last week, much of it driven by the different sector composition of the indices. Energy and mining stocks moved higher yet again, driven by commodity price gains. Many manufacturers declined due to fears that their margins would be squeezed by these rising input costs.
- Technology shares also fell following cuts in revenue forecasts by Hynix Semiconductor and Chartered Semiconductor.
- Japanese equities performed strongly after the release of better than expected economic data.

Eurozone Bonds

- Eurozone bond prices had a volatile week. Weaker German employment and manufacturing sentiment data had a positive effect on prices early in the week, but this was countered by announcements of additional supply of long dated stock from the Netherlands and Greece.
- A further rise in oil prices was also a negative. However, the decision of the ECB to leave interest rates unchanged and favourable comments from its president, Jean Claude Trichet, on the inflation outlook had a steadying effect as did evidence that the US economy would allow the Fed to continue raising rates at a "measured pace". The Merrill Lynch over 5 year government bond index gained 0.2% on the week.

Global Outlook

- Activity in the global economy remains reasonably strong, although the forward indicators suggest some slowdown over coming months. The effects of the continued high level of oil prices seem limited to date, but policymakers will remain vigilant during 2005.
- The Federal Reserve has raised rates to 2.5% and investors expect further 'measured pace' increases over the rest of the year, consistent with a year end rate of 3.75%. Inflation data will remain central to the Fed's policy actions over coming months.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Recently it seems to be worrying again about rising property prices and generous financial liquidity conditions. Overall, it is still likely that low ECB rates and well-behaved eurozone inflation can remain supportive of eurozone bonds, notwithstanding the type of profit-taking correction witnessed during February.
- Equity market returns have been quite varied so far this year. The US market remains sluggish, continuing to lag better performing European and Asian markets. Within most markets the technology sector has been an under-performer for a number of months. For 2005, global profit growth is expected to be around 10%, providing an underpinning to equity markets.
- Currently, the funds are neutral bonds and overweight equities versus the manager average. Sector-wise the funds remain overweight basic industries, resources and financials, while underweight some of the more defensive sectors. In geographical terms, the funds continue to be neutral the UK and Japan, underweight the US, while overweight Europe and the Pacific Basin.