

Market Comment

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Overview

Equity markets were relatively subdued last week as investors waited for the third quarter earnings season to get under way. Much emphasis has been placed on this set of earnings results, as they will provide an indication of the sustainability of the current economic recovery. The consensus is that the earnings reports will show further signs of improvement this quarter. However, investors will be anxious to see evidence of earnings growth resulting from increasing sales rather than from cost cutting which dominated the last two reporting seasons.

On Thursday, the US initial jobless claims fell to their lowest level since February. This followed on from positive news on the labour market in the previous week and lent further weight to the view that fears of a "jobless recovery" may be overplayed.

The volatility on currency markets continued last week. Comments from Wim Duisenberg, outgoing president of the European Central Bank that the dollar would have to adjust lower given the US current account deficit caused the Euro to strengthen against the dollar. The strength of the Euro took its toll on European exporters early last week. However, the sector settled down later in the week as a result of upbeat jobs data from the US which helped to support the dollar.

Movements in the main markets since last week's comment			
Market	Index	% Return 03/10/2003 to 10/10/2003	
		Local Currency	Euro
US	S&P 500	0.8	-1.2
US	NASDAQ	1.9	-0.2
Europe	FT/S&P Europe Ex. UK	0.4	0.4
Ireland	ISEQ	2.3	2.3
UK	FTSE 100	0.9	-0.9
Japan	Topix	0.7	0.7
Hong Kong	Hang Seng	2.8	0.5
Australia	S&P/ASX 200	1.8	1.6
Bonds	Merrill Lynch Euro over 5 year	0.2	0.2

Equities

The main news on the US market came from Yahoo, the biggest Internet search engine provider. The stock surged 12% after it posted better than expected third quarter profits. The company cited continued strength in advertising and sponsored search revenues as the main drivers behind its profits. The results helped to push the technology heavy Nasdaq index up 2.0% on the week. In Europe, SAP, the German business software maker, said that third quarter sales would beat market expectations.

Asian and Latin American markets continue to outperform, in particular Singapore and Brazil. These regions will benefit most from the upturn in the global economy due to their growth potential and low cost base. Japan has held up well, despite Yen strength. Japanese banks have outperformed in recent months as investors have become more confident concerning the pace of non performing loan disposals.

The €887 million offer for First Active from Royal Bank of Scotland ended the long running speculation regarding the fate of the Irish bank last week. The takeover price was three times First Actives end of June book value and the share price rose sharply as a result.

Bonds

Eurozone bond markets held their ground last week due mostly to a lack of firm direction on equity markets. They fell back on news of better labour data from the US but ended the week in marginally positive territory. US bonds fell back on Tuesday on better economic news and new corporate bond issuance.

Outlook

- Economic activity has strengthened in the US and investors have begun to anticipate a synchronised global recovery; inflation pressures remain low.
- Central banks have stated that interest rates are likely to stay low for a considerable period of time.
- Equity markets have risen sharply since mid-March; increased growth optimism could extend this rally further although valuations are a constraint in certain sectors and markets. Additionally, investors still have some concerns about the sustainability of growth improvements.
- Bond markets have reversed some of their "growth-optimism" losses; central banks have re-stated their commitment to keeping interest rates low and recent inflation data has been bond friendly.
- Ultimately, however, a successful reflationary effort by global policymakers would mean a negative environment for bond markets and a more positive one for equities.
- Our current overall portfolio stance is overweight equities and underweight bonds versus the manager average. The funds are underweight in the UK equity market due to its defensive characteristics and overweight Asia and Latin America due to more attractive valuations and better economic growth potential.

