

Market Comment

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Overview

UK and European markets outperformed last week driven by upbeat corporate earnings, increased merger and acquisition activity and improved investor sentiment. US markets also started the week well on the back of take-over activity and positive economic data but fell back later in the week due to profit taking. Japan rose on better than expected GDP data while the Irish market moved forward on an announcement from Elan regarding its Multiple Sclerosis drug Antegren being submitted to the US FDA for approval.

Economic data from around the world was mixed last week. Japan provided the biggest surprise with news that Japanese GDP grew 1.7% in the fourth quarter or 7% at an annualised rate, the fastest rate of expansion since 1990. Increased capital expenditure was responsible for much of the growth. In the US, initial unemployment claims were lower than expected. However, the Philadelphia Federal Reserve Index, which surveys regional manufacturing activity, fell in February to 31.4, down from 38.8 in January and US consumer prices rose by more than expected. In Europe, the German ZEW survey on expectations of future economic growth was also weaker than expected.

On currency markets, Sterling was in the spotlight as it briefly rose to \$1.91 against the dollar for the first time since 1992. Interest rate differentials are the prime reason behind the gains. UK rates are now at 4%, four times higher than the US Fed funds rate. Strong retail data in the UK support the belief that that Bank of England could raise rates further in the medium term. US rates remain at their lowest level for forty years. In addition, the yen weakened against the US \$ at the end of the week helping Japanese exporting stocks.

Movements in the main markets since last week's comment			
Market	Index	% Return 13/02/2004 to 20/02/2004	
		Local Currency	Euro
US	S&P 500	-0.2	1.8
US	NASDAQ	-0.8	1.2
Europe	FT/S&P Europe Ex. UK	1.1	1.1
Ireland	ISEQ	1.7	1.7
UK	FTSE 100	2.3	2.9
Japan	Topix	1.7	0.1
Hong Kong	Hang Seng	0.9	2.8
Australia	S&P/ASX 200	0.3	-0.8
Bonds	Merrill Lynch Euro over 5 year	0.8	0.8

Equities

Mergers and acquisitions activity dominated markets last week. In the US, investors came back from Monday's holiday to find that Cingular Wireless had won the battle for America's third largest mobile phone company, AT&T Wireless, with a last minute all cash bid of \$41 billion. The UK market rallied strongly when Vodafone pulled out of the two way auction for AT&T. The stock has fallen 11% since January on fears that a successful bid would be detrimental to Vodafone's earnings. BHP Billiton also supported the market on the announcement of better than expected results due to higher commodity prices.

In Europe, good results from a number of companies including Zurich Financial Services and Total helped markets to move forward. The Irish market rose as Elan, the pharmaceutical company, reported that a drug in development for Multiple Sclerosis may be submitted for approval by the US FDA.

Markets in the Far East continue to hold up well. In Singapore, equities rose as economic data showed further increases in exports for the country. Other Asian markets continue to respond favourably to the global economic upturn.

Bonds

Bonds were moderately lower over the course of the week. In the eurozone there was further verbal intervention to stem any further euro gains. This proved partially successful, with a period of high volatility seeing the euro down 2% versus the dollar. A slightly higher consumer prices inflation figure at the end of the week pushed US bond prices lower and had some knock on impact in the eurozone. The Merrill Lynch over five year government bond index fell by 0.2% on the week.

Outlook

- The global economy, led by the US, continues to display strong momentum.
- Investors have begun to anticipate the turn (upwards) in the US and Eurozone interest rate cycle, although the strength of the euro may keep the ECB on hold for longer. The Fed is using low inflation as justification for maintaining US interest rates at their current ultra-low levels.
- This environment is one in which bonds should remain less favoured than equities, despite the relatively supportive inflationary background currently being experienced.
- The economic picture remains a more positive one for equity markets, although valuations are once more an issue in certain markets and sectors. Historically, equity markets have continued to be supported even in the initial stages of tighter monetary policy.

- Our current stance is overweight equities and neutral bonds versus the manager average. The funds continue to be overweight Asia due to more attractive valuations and better economic growth potential. The funds are also overweight Europe on valuation grounds. The funds have overweight sectoral positions in financials and general industrials.

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