

## Global Overview

- Equity markets struggled to make any progress during the week. Volumes were very low and all eyes remained focused on two events to take place this coming week – the Federal Reserve meeting on June 30th and the hand-over of power in Iraq, also to take place on June 30th.
- Expectations are that the Federal Reserve will raise US interest rates by 0.25% on Wednesday. This is likely to be the first in a sequence of rate rises over the course of the year, taking US rates over 2% by year end, from 1% currently.
- Economic news in the US showed the finalised Quarter 1 GDP number falling to 3.9%, from the estimated level of 4.4%. The University of Michigan Confidence Survey came in at 95.6, fractionally ahead of expectations.
- In Germany, the IFO business climate survey was released on Friday and was weaker than expected.
- Asian stock markets proved the exception to the general lethargy during the week, with both Japan and Hong Kong rising 2% or more. The quarterly Tankan survey of corporate sentiment, due next week, is expected to confirm the improvement in Japanese business conditions.

Market	Index	Year to Date Return 31.12.03 to 25.06.04		1 Week Return 18.06.04 to 25.06.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	2.0	5.6	-0.1	-0.2
US	NASDAQ	1.1	4.6	2.0	1.9
Europe	FT/S&P Europe Ex. U.K.	4.6	4.6	0.0	0.0
Ireland	ISEQ	9.3	9.3	0.7	0.7
UK	FTSE 100	0.4	6.1	-0.3	-1.3
Japan	Topix	12.3	15.9	2.0	2.7
Hong Kong	Hang Seng	-3.1	-0.2	2.8	2.7
Australia	S&P/ASX 200	7.0	2.9	0.0	1.4
Bonds	Merrill Lynch Euro over 5 year	2.2	2.2	0.2	0.2

## Equities



### USA

- The S&P 500 index was virtually unchanged on the week.
- The NASDAQ gained 2% as cyclical stocks enjoyed a better week, with investor enthusiasm for defensive stocks, such as consumer staples, waning.
- Telecoms company AT&T fell almost 10% on Thursday, a day after the company cut its 2004 revenue forecast by \$1bn. The company has been locked in a price war in the US long-distance telephone market.
- In the banking sector, Wachovia agreed a takeover of Alabama-based SouthTrust, creating the fourth largest US bank by assets. It is the biggest move in US retail banking since JP Morgan Chase took over Bank One in January.



## Europe

- European markets struggled to make any progress during a week of low volumes.
- Technology stocks were among the best performers with Alcatel rising 9.3% on hopes it was poised to win new orders. Other interest centred on a flurry of new listings amid signs that the initial public offerings market may be picking up after a protracted slump.
- In the UK, a Merrill Lynch report that changes in accounting practices may hurt profits in the banking sector sent prices in the sector downwards. Royal Bank of Scotland fell 2.6%, Lloyds TSB fell 1.6%, while Barclays lost 2.6%.
- On a more upbeat note, mining stocks gained from renewed confidence about the Chinese economy. Both Rio Tinto and BHP Billiton added 3.2%, the former signing a number of new contracts to supply ore to Chinese steelmakers.
- Vodafone had an unhappy week, losing two of its senior executives and facing into a possible price war with its competition. The price fell 2.8% on the week.



## Ireland

- While the mooted take-over of Heiton Group by rival Grafton rumbled away in the background, focus in Ireland switched to financials. Irish Life & Permanent issued a trading statement saying that it expected earnings growth in line with market expectations for the first six months of this year, due to a combination of strong volume growth, tighter margins and effective cost management.
- A trading statement from AIB signalled that its core businesses are performing well and that the group is on course to report more than 10% growth in profits this year.



## Pacific Basin

- Asian equities gained following more good news on the Japanese economy and hope that China's economy was slowing down to a more sustainable growth rate.
- In Japan, a measure of activity of the services industry grew faster than expected, while in China the central bank denied that it would be raising interest rates. This followed comments from the Chinese Premier that measures to slow the economy down were showing clear effects.

## Eurozone Bonds

- Eurozone bonds rose slightly on the week. Lacking direction in the early part of the week, prices rose on Thursday in the aftermath of bombings in Turkey and Iraq, leading to some safe-haven buying by investors already jittery about next week's hand-over of power in Iraq. A weaker IFO survey figure in Germany on Friday had little impact on bond markets. The Merrill Lynch Euro >5 Year Index rose 0.2% on the week.

## Global Outlook

- The global economy remains strong. The eurozone has lagged other regions, although recent data has been more encouraging. Chinese policymakers remain focused on reining in excessive borrowing and investment.
- If oil prices are sustained at very high levels they could be a threat to the global economy going forward.
- The Federal Reserve has indicated that it will start increasing rates, from the current 1% level, beginning this week. It has said that any moves will be carried out in a measured fashion. The ECB is officially in a neutral stance at the moment.
- Bond markets in the US have begun to anticipate rising short rates and this has also had a negative impact on eurozone bonds. Overall, it remains a difficult environment for bonds.
- Equity markets have been buffeted by concerns over the timing and pace of US interest rate rises, as well as high oil prices, despite the strong economic growth and corporate earnings backdrop.
- Our current stance is neutral to slightly overweight equities and underweight bonds versus the manager average. The funds continue to have slightly overweight sectoral positions in cyclical areas such as general industrials and basic materials, while remaining underweight in utilities. Financials have been moved from neutral to underweight, given their sensitivity to the prospect of rising interest rates, while pharmaceuticals have been increased to overweight. As regards geographical bias, the funds are overweight Europe and underweight the Pacific region.