



Global Overview

- It was a good week for most equity markets as investors remained optimistic on earnings and economic growth prospects and shrugged off concerns about a further rise in oil prices, downbeat economic news from Germany and prospects of higher interest rates in the US and UK.
- Crude oil price futures in New York rose above \$45 per barrel in response to a surprise drop in US crude stocks and to fears that further Caribbean storms would threaten oil operations in the Gulf of Mexico.
- Economic indicators on the US showed a strong jump in the Empire survey of manufacturing activity in New York, while retail sales data were slightly behind expectations.
- Industrial production rose less than expected, but the previous month's figure was revised upwards. The University of Michigan index of consumer confidence was a little below expectations but remained above 95, as it has for the last 4 months. Consumer price inflation remained well behaved and in line with forecasts.
- In Europe, the ZEW Index of German investor confidence fell to a 13-month low, while in the UK, strong retail sales underpinned expectations of a further rise in interest rates this week pushed sterling higher.
- In the coming week, attention will focus on the Federal Reserve's meeting on Tuesday, when an announcement of another interest rate increase of 0.25% is widely anticipated.

Market	Index	Year to Date Return 31.12.03 to 17.09.04		1 Week Return 10.09.04 to 17.09.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	1.5	4.7	0.4	1.3
US	NASDAQ	-4.7	-1.6	0.8	1.7
Europe	FT/S&P Europe Ex. U.K.	4.0	4.0	1.2	1.2
Ireland	ISEQ	15.0	15.0	1.7	1.7
UK	FTSE 100	2.6	2.6	1.0	1.6
Japan	Topix	7.2	8.0	-0.7	-0.4
Hong Kong	Hang Seng	5.2	8.0	1.7	2.6
Australia	S&P/ASX 200	10.1	5.3	1.0	1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	5.7	5.7	0.2	0.2

Equities



USA

- In a quiet trading week, which encompassed the Jewish New Year holiday, Wall Street edged ahead, with both the NASDAQ and the broader S&P 500 index gaining from optimism on third quarter earnings prospects and a reasonable week of economic indicators.
- The slightly upbeat tone was sustained despite a profit warning from Coca-Cola, which cited weak demand in key markets. The share price fell 4.3% on the news.
- More positive results emerged from the technology sector: Oracle beat analysts' expectations with an announcement that rising demand had led to a 16% gain on Q1 profits.



Europe

- European resources and mining stocks had a good week, helped by a bullish Goldman Sachs review on the sector and the prospect of rising demand from China. Among the stronger performers was Corus, the Anglo-Dutch steelmaker, which rose 9.3%, announcing its first profit since its formation in 1999, while BHP Billiton gained 7%.
- Bank stocks also performed well, helped by bid speculation. UK bank Abbey National is likely to be taken over by Spanish bank, Santander Central Hispano, in an agreed bid of £8.5bn following a decision by HBOS not to launch a counter bid.
- The UK FTSE 100 Index rose to its highest level in over 2 years, helped by strength in the mining and banking sectors. Additionally, High Street retailer Next announced excellent results, ending the week up 6.8%.



Ireland

- The Irish market had a good week, helped by strong performances from Elan, Glanbia, Kingspan, Grafton and Heiton, as well as further gains in financials. The ISEQ Index is now up 15% year to date, well ahead of the major markets, thanks largely to an exceptional 272% advance, from very low levels, in Elan.
- Independent News and Media announced better first half results, gaining from cost-cutting and economic strength in some of its major markets.
- Fyffes announced that it had withdrawn from takeover talks with Bocchi, the Italian Fruit and vegetable importer.



Pacific Basin

- Most Asian equity indices finished higher last week. The negative sentiment from another move up in the oil price was offset by news that some key economic indicators in China pointed to a more balanced pace of growth. This reduced fears that further tightening measures would be imposed on the economy.
- In Hong Kong, fashion chain Esprit reported a 55% rise in annual profits, pushing the stock ahead by 6%.
- In Japan, profit taking on technology stocks caused a slight dip in the Topix Index.

Eurozone Bonds

- Eurozone bond prices weakened early in the week after a warning from ECB president, Otmar Issing, that interest rates could be raised if higher oil prices create inflationary problems. The downturn was reversed subsequently as US inflation was reported in line with expectations and German indicators showed a fall in investor confidence. The over 5 year eurozone government bond index ended the week a marginal 0.2% higher.

Global Outlook

- Activity levels in the global economy remain high, although there has been some softness in recent US and Japanese data. The eurozone has been a laggard but is now back to its trend growth rate. The much-watched Chinese economy is slowing from a period of torrid growth. A high and sustained oil price should lower growth but increase inflation. The recent decline in the oil price is a positive.
- The Fed has commenced its well-flagged tightening cycle, beginning with two 0.25% increases to 1.5%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures will be closely watched by both eurozone and US central banks in coming months, although the ECB's official stance is that it has no bias as to the next change in rates.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric. In addition, global growth indicators are now anticipating a loss of momentum in the pace of economic expansion, albeit from high levels.
- Strong profits and earnings' revisions have validated last year's strong price gains; this year's overall performance for global equities has been more muted. Underlying profit strength and lower valuations than last year offer support to equity markets; however, recent earnings' guidance from some US companies has been a bit disappointing. Terrorism worries and the rising price of oil had sapped the demand for equities, but markets' behaviour has been much more positive in the past month.
- Our current stance is overweight equities versus the manager average and slightly underweight in bonds. The funds continue to have overweight sectoral positions in basic materials and financials, an underweight position in consumer staples while general industrials have been moved to neutral from overweight. As regards geographical bias, the funds are overweight Europe, the Pacific region and Japan while underweight the UK and the US.