



Global Overview

- Equity indices declined last week on the back of an increase in interest rates in the U.S. and a 7% increase in the oil price.
- Crude oil price futures in New York rose to almost \$49 per barrel (above the August peak) as concerns about oil supplies supported prices. The US government announced that it will release some stocks from its strategic petroleum reserve to help combat supply shortages in the Gulf. There were also reports that some Russian oil exports to China have been halted.
- The US Federal Reserve met on Tuesday and their decision to rise rates by 0.25% was well anticipated by the market. The accompanying statement was relatively upbeat but was less optimistic than previous statements. The statement indicated that the labour market had improved modestly and inflation has eased.
- Markets were also affected by profit warnings from two of the world's largest consumer product makers, Colgate-Palmolive and Unilever.
- On currency markets, the US dollar was weaker by almost 0.5%, the euro rose to \$1.226 and sterling rose to \$1.80. The Japanese yen fell by 1% against the world's major currencies due to a disappointing economic data

| Market | Index | Year to Date Return 31.12.03 to 24.09.04 | | 1 Week Return 17.09.04 to 24.09.04 | |
|-----------|--------------------------------------|---|-----------|---------------------------------------|-----------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S & P 500 | -0.2 | 2.3 | -1.6 | -2.3 |
| US | NASDAQ | -6.2 | -3.9 | -1.6 | -2.3 |
| Europe | FT/S&P Europe Ex. U.K. | 2.8 | 2.8 | -1.1 | -1.1 |
| Ireland | ISEQ | 14.6 | 14.6 | -0.3 | -0.3 |
| UK | FTSE 100 | 2.3 | 5.9 | -0.3 | -0.4 |
| Japan | Topix | 5.6 | 5.1 | -1.5 | -2.7 |
| Hong Kong | Hang Seng | 3.9 | 6.0 | -1.2 | -1.9 |
| Australia | S&P/ASX 200 | 9.8 | 6.7 | -0.2 | 1.4 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 6.4 | 6.4 | 0.6 | 0.6 |

Equities



USA

- US equities fell back last week due to high oil prices and profit warnings from a number of high profile companies.
- A profit warning from Colgate-Palmolive caused consumer staples to be the weakest sector over the week while the energy sector was boosted by the rising oil prices. Some technology stocks also warned on profits, contributing to the downbeat tone of the market.
- Reports from investment banks were mixed. Morgan Stanley said that third quarter earnings fell 34% due to slow trading. Goldman Sachs said profits had risen 30% , while Lehman Brothers said earnings grew 5% in the same quarter.



Europe

- European markets also fell back last week. Personal care was the worst performing sector due to profit warnings from Unilever and US company, Colgate Palmolive. The energy sector outperformed on the back of high oil prices.
- France's Carrefour, the world's second biggest retailer, was down 7% on the week following reports in the French press claiming the company lost market share over the summer months.
- In the UK, Marks & Spencer announced a drop in store sales and priced a £2.3 billion share buy back at the lower end of expectations. Countrywide, the UK's biggest estate agency announced that profits for the year would be below expectations as the UK housing market continues to slow.



Ireland

- The Irish market fell marginally for the first time since the beginning of August.
- Bank of Ireland delivered its trading update for the half year to end September on Thursday, disappointing the market on higher costs and weaker UK revenues.
- Anglo Irish Bank named its new chief executive designate, David Drumm to succeed Sean Fitzpatrick. The announcement had little effect on the share price.



Pacific Basin

- Asian equities fell last week as another steep rise in the oil price raised fears that global growth would be stifled. Exporters were consequently amongst the worst performers regionally.
- In Japan, an index of industry activity unexpectedly declined and contributed to a deterioration of sentiment, especially ahead of the release this week of the much-watched Tankan survey. Energy companies outperformed due to the rise in the oil price.

Eurozone Bonds

- Bond prices moved higher last week despite the rise in US interest rates. Prices were supported by the accompanying statement from the US Federal Reserve which reiterated that interest rate hikes are likely to continue at a measured pace. The statement also observed that inflation and inflation expectations have eased. Terrorism concerns and softer economic data are also bond positive. The over 5 year eurozone government bond index ended the week 0.6% higher.

Global Outlook

- Activity levels in the global economy remain high, although some leading indicators suggest a slowing in the pace of global expansion. The eurozone has been a laggard but is now back to its trend growth rate. Chinese growth remains very strong despite slowdowns in certain areas. A high and sustained oil price should lower growth but increase inflation.
- The Fed has commenced its well-flagged tightening cycle, beginning with three 0.25% increases to 1.75%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures are being closely watched by both eurozone and US central banks. The ECB still seems in "wait and see" mode, although its rhetoric has become marginally more negative.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric, well behaved inflation data and a sense that global growth momentum may have peaked.
- Strong profits data have validated last year's substantial 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 - although rising US short rates provide some offset to these positives. Terrorism worries and the rising price of oil had sapped the demand for equities, but market behaviour has been more positive in recent weeks.
- 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.