

Global Overview

- Equity markets fell last week as they absorbed bad news from a number of different sources.
- After the previous week's record highs, metal prices, led by copper, tumbled in mid week. The price of copper fell 10% on Wednesday alone, its biggest one-day fall for eight years. There was an inevitable knock-on into mining stocks, which fell sharply on the week.
- Oil prices also maintained their sky-high levels, ending the week just shy of \$55 per barrel. In a speech mid-week, Alan Greenspan, the Federal Reserve Chairman, downplayed the negative effect of oil prices on the US economy. However, he did warn that the risk of more serious consequences for the economy would intensify if oil prices were to move materially higher.
- Last week also marked the beginning of the third quarter earnings' announcements season in the US. This was largely overshadowed by events in commodity markets.
- On the economic news front, the US trade deficit rose to its second highest level ever during September. High energy costs and rising imports from China were given as the main reasons. Meanwhile, in Germany there was an unexpectedly large fall in business confidence.
- Bond markets moved higher as worries mounted about the effect of the high oil price on economic growth. Jean-Claude Trichet, head of the European Central Bank, said on Friday that the rise in oil prices had raised risks and uncertainties in the eurozone.

Market	Index	Year to Date Return 31.12.03 to 15.10.04		1 Week Return 08.10.04 to 15.10.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-0.3	0.5	-1.2	-1.6
US	NASDAQ	-4.6	-3.8	-0.4	-0.8
Europe	FT/S&P Europe Ex. U.K.	3.6	3.6	-1.5	-1.5
Ireland	ISEQ	13.5	13.5	-0.7	-0.7
UK	FTSE 100	3.3	5.2	-1.6	-1.6
Japan	Topix	5.9	5.0	-3.0	-3.3
Hong Kong	Hang Seng	3.8	4.4	-1.4	-1.8
Australia	S&P/ASX 200	12.8	10.4	0.9	-0.2
Bonds	Merrill Lynch Euro over 5 year Govt.	7.2	7.2	0.4	0.4

Equities



USA

- The US market finished the week down over 1% as it grappled with collapsing commodity prices, a higher oil price, record deficit figures and a mixed bag of third quarter corporate reports.
- Good numbers came from McDonalds (much improved performance in the US though still struggling in Europe), Intel, Apple (iPod sales a big success) and Yahoo (profits more than trebled in the last quarter).
- However, General Motors stock fell over 6% after it announced disappointing results. It is performing very poorly in Europe, where it intends to shed 12,000 jobs.
- Insurance stocks fell sharply when the New York Attorney General, Eliot Spitzer accused the industry of corrupt practices. AIG lost 13.5%, while Marsh & McLennan fell over 30%.



Europe

- European markets also fell last week with mining and insurance stocks being among the biggest losers. Insurance stocks were hit by the news from the US that the New York Attorney General has accused the industry of anti-competitive practices, which could knock-on into their European businesses.
- Mining stocks were down sharply in the wake of a collapse in metals' prices, particularly copper. BHP Billiton shed 7.8% on the week, while Rio Tinto lost 5% and Xstrata 6%.
- Better news came from the more defensive sectors, such as beverages and tobacco, with Cadbury Schweppes (+4%), Diageo (+3.9%) and Danone (+3.4%) among the better performers.
- Nokia rose 3.8% on the week, despite reporting a fall in third quarter profits. This was blamed on price cuts, aimed at winning back market share. One of its main rivals in the handset market, Sony Ericsson reported strong third quarter profits.



Ireland

- Pharmaceutical group Elan was in the news again after disposing of its 3.8% stake in Warner Chilcott, raising €103m to help fund near-term debt commitments. Warner Chilcott is expected to be taken over in the near future, having been approached by three different bidders.
- New to the market, C&C reported good results this week for the first half of 2004 and said that its full year earnings were set to meet market forecasts.



Pacific Basin

- Asian equities declined last week after another rise in the oil price increased fears that global growth would slow. Metals' prices fell, reportedly due to slowing Chinese demand, but more likely because of excess speculation which had helped to fuel price rises.

Eurozone Bonds

- The biggest factor at play in global bond markets was, once again, the oil price. Concerns about the effect of rising energy prices on economic growth were to the fore, sending bond prices higher.
- European bonds were also boosted on Tuesday by an unexpectedly large fall in German business confidence and on Thursday by the release of weaker economic numbers in the US.
- The Merrill Lynch Euro Gov't > 5 Year Index was up nearly half a per cent on the week and is now up over 7% year-to-date.

Global Outlook

- Activity levels in the global economy remain high, although leading indicators foresee a slowing in the pace of global expansion. The high oil price is a 'growth tax' for consuming nations but also boosts inflation, posing an undoubted dilemma for policymakers in the major economies.
- The Fed has raised rates from 1% to 1.75% this year and has promised more increases at a 'measured pace'. Employment growth is seen as the key test of the US economy's strength. This has been modest in past months and may temper the Fed somewhat. In the eurozone the ECB remains more upbeat on growth prospects than the market, but is still in 'wait and see' mode regarding interest rates.
- Bond markets have taken some comfort from the stance of the Fed and the ECB, well-behaved inflation data and a sense that global growth momentum has peaked.
- Strong corporate profits have endorsed last year's equity market performance. This year markets have been more subdued although the support of more favourable valuations in the non-US markets is seen in these markets' ongoing out-performance of the US. Markets have recovered well from their mid-August trough, out-performing bonds substantially since then.
- Our current stance is overweight equities versus the manager average and underweight bonds. Sector-wise the funds are overweight resources, basic/general industrials and financials, while underweight some of the more defensive sectors. In geographical terms, the funds continue to be underweight the US, are neutral on UK and Japan and overweight the Pacific Region and Europe.