

## Global Overview

- Markets had a mixed week as US inflation and interest rate concerns were balanced by lower oil prices and a strengthening dollar.
- The Federal Reserve raised interest rates by 0.25% to 2.75%, signalling increased concerns about inflation. While it gave an upbeat view of the US economy, stating that output was expanding at a 'solid' pace, its emphasis on inflation was interpreted as a shift to a more hawkish stance than previously.
- The Fed inflation concerns were followed by news that the US consumer price index, excluding the volatile energy component, had risen by 2.4% in the 12 months to March, its highest rate of increase since May 2002.
- The acceleration in inflation was unsettling for both bond and equity markets as investors feared more aggressive interest rate tightening.
- Oil prices declined by more than 3% on the week and commodity prices in general declined by almost 4%.
- The dollar gained from higher interest rate expectations and rose against all major currencies; the euro fell to \$1.2950 from \$1.3320 a week previously.

Market	Index	Year to Date Return		1 Week Return	
		31.12.04 to 25.03.05		18.03.05 to 25.03.05	
		Local Currency	Euro	Local Currency	Euro
		%	%	%	%
US	S & P 500	-3.3	1.2	-1.5	1.2
US	NASDAQ	-8.5	-4.2	-0.8	1.9
Europe	FT/S&P Europe Ex. U.K.	4.3	4.3	0.4	0.4
Ireland	ISEQ	-1.1	-1.1	0.6	0.6
UK	FTSE 100	2.3	4.4	0.0	0.0
Japan	Topix	3.8	4.7	-0.8	0.4
Hong Kong	Hang Seng	-4.5	-0.3	-1.7	1.1
Australia	S&P/ASX 200	2.1	5.3	-2.7	-2.9
Bonds	Merrill Lynch Euro over 5 year Govt.	0.9	0.9	0.0	0.0

## Equities



### USA

- The US under-performed other regions on the back of the increase in US interest rates and higher than expected consumer price inflation in February.
- Oil stocks and material stocks under-performed due to the decline in commodity prices; healthcare stocks out-performed.
- With regard to corporate news, insurance giant AIG declined by 7% on the back of more regulatory scrutiny. Cruise operator, Carnival's quarterly earnings were better than expected but the company didn't increase full year guidance and the stock under-performed on the week.



## Europe

- European markets made modest gains on the week, helped by good corporate news and a more stable interest rate environment.
- Exporting stocks such as autos were helped by the rising dollar and out-performed. Renault rose almost 4%, helped also by a broker upgrade, while Volkswagen gained over 3%.
- As in the US, the fall in oil and other commodity prices caused oil and resources stocks to under-perform.
- German drug group, Schering, fell over 14% on news that it will delay filing its colon cancer drug PTK/ZK for regulatory approval, following disappointing clinical trials. Novartis, with whom it is jointly developing the drug, was less affected. The news boosted rival Roche, as it has a competing treatment, Avastin, which has already been approved.



## Ireland

- Bank of Ireland issued a trading update which confirmed strong growth in its Irish operations, slightly ahead of analysts' forecasts. It also announced plans to generate annual cost savings of 120m over a 4 year period. The savings are likely to involve cuts of over 2,000 jobs and the sale of its Bristol & West branch network in the UK. The share price was unchanged on the week.



## Pacific Basin

- Asian equities fell last week, led by the shares of energy and mining companies as the prices of crude oil and metals dropped.
- Hong Kong property stocks declined after the Federal Reserve in the US increased interest rates again – Hong Kong's currency peg to the dollar means that moves in US interest rates are generally followed in the territory.
- The share prices of exporters across the region were mostly higher after the dollar strengthened.
- In Japan, a land price survey revealed that residential land prices in Tokyo rose in 2004 for the first time since 1987. The survey overall showed nationwide land prices continued to contract, but at a lessening pace.

## Eurozone Bonds

- In a quiet pre-Easter markets week, eurozone bond prices held up relatively well against a background of higher US inflation (which caused declines in US bond prices), a strengthening dollar and negative ECB reaction to proposals to ease the fiscal restraints of the stability and growth pact.
- Sentiment was helped by a decline in German business confidence. The Ifo Institute's business climate index for March fell to 94, from 95.4 in February, with participants citing concerns about high oil prices and euro strength. The downturn in the index sustained expectations of no near-term change in eurozone interest rates, notwithstanding concerns about fiscal laxity among some members.

## Global Outlook

- Activity in the global economy remains reasonably strong, although the forward indicators suggest some slowdown over coming months. The effects of the continued high level of oil prices seem limited to date, but policymakers will remain vigilant during 2005.
- We have said for some time that inflation data will remain central to the Fed's policy actions over coming months. Increasing rates to 2.75% last week, the Fed heightened its inflation concerns somewhat, leading markets to now anticipate short rates at 4% by end year.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Recently it seems to be worrying again about rising property prices, generous financial liquidity conditions and the level of government borrowings. On balance however, it is still likely that low ECB rates and well-behaved eurozone inflation can remain supportive of eurozone bonds.
- Equity market returns have been quite varied so far this year. The US market remains sluggish, continuing to lag better-performing European and Asian markets. Within most markets the technology sector has been an under-performer for a number of months. For 2005, global profit growth is expected to be around 10%, providing an underpinning to equity markets.
- Currently, the funds are neutral bonds and slightly overweight equities versus the manager average. Sector-wise the funds have taken profits on overweight positions in resources and basic materials but remain overweight in financials and general industrials; some of the more defensive sectors remain underweight. In geographical terms, the funds continue to be neutral the UK and Japan, underweight the US, while overweight Europe and the Pacific Basin.