

## Global Overview

- Equity markets were little changed last week on the back of mixed economic data and a small decline in the oil price.
- Oil prices dominated the headlines. Goldman Sachs raised its long term price target for oil from \$45 to \$60 per barrel. It said it expects oil prices to remain at that level for the rest of the decade. Merrill Lynch and JP Morgan also raised their forecasts.
- The US dollar bounced back last week, with the euro falling 2.3% to \$1.21 as the week drew to a close. The dollar was helped by data which showed that overseas investors continue to accumulate large holdings of US assets, particularly corporate and agency bonds due to their more attractive yields.
- On the interest rate front, minutes from the Bank of England's monetary policy committee meeting, suggested that the decision to implement a cut in UK interest rates earlier in the month was by no means unanimous. For the first time in its' history, the governor who voted for unchanged rates was over-ruled by a majority of one in favour of a rate cut. This resulted in speculation that further cuts may not be forthcoming.
- On economic news, inflation data in the US for July was released which showed consumer prices remained muted but producer prices increased by more than expected. U.S. industrial production for July was lower than expected.
- Japan outperformed other regions on the back of rising approval ratings for Prime Minister Koizumi, bolstering expectations that he will be re-elected with a mandate to step up reform measures which will benefit the Japanese economy.

| Market    | Index                                | Year to Date Return<br>31.12.04 to 19.08.05 |           | 1 Week Return<br>12.08.05 to 19.08.05 |           |
|-----------|--------------------------------------|---|-----------|---------------------------------------|-----------|
|           |                                      | Local Currency<br>%                         | Euro<br>% | Local Currency<br>%                   | Euro<br>% |
| US        | S & P 500                            | 0.6   | 12.1      | -0.9                                  | 1.2       |
| US        | NASDAQ                               | -1.8  | 9.3       | -1.0                                  | 1.1       |
| Europe    | FT/S&P Europe Ex. U.K.               | 14.0  | 14.0      | -0.6                                  | -0.6      |
| Ireland   | ISEQ                                 | 7.7   | 7.7       | -0.9                                  | -0.9      |
| UK        | FTSE 100                             | 10.4  | 15.2      | -0.6                                  | 0.4       |
| Japan     | Topix                                | 8.8   | 12.5      | 0.4                                   | 1.7       |
| Hong Kong | Hang Seng                            | 5.7   | 17.7      | -2.7                                  | -0.6      |
| Australia | S&P/ASX 200                          | 10.2  | 17.9      | -0.2                                  | -0.8      |
| Bonds     | Merrill Lynch Euro over 5 year Govt. | 6.9   | 6.9       | 0.8                                   | 0.8       |

## Equities



### USA

- US markets declined marginally over the week but returns were positive for eurozone investors due to an increase in the US dollar.
- The big story on the corporate front came from Wal-Mart, the world's largest retailer. The company trimmed its full-year profit forecasts due to the impact of high oil prices on discretionary spending.
- In the technology sector, Hewlett-Packard reported strong results and the share price rose 10% as the results were well ahead of expectations due to laptop sales in particular. However, Gateway disappointed the market with poor results and the share price fell 17%.
- Consumer staple stocks outperformed last week and oil stocks underperformed, falling some 3% due to a setback in the oil price.



## Europe

- European markets had a difficult week as investors focused on the effect of high oil prices on the recovery going forward. Markets suffered six consecutive days of negative returns up to Thursday. However, Friday saw an improvement in sentiment.
- Among the best-performing stocks on the week were Shire Pharmaceuticals, up 6%, and Carlsberg, up over 6%.
- Energy and mining stocks underperformed over the week with BHP Billiton down over 4%.
- In the UK, Deutsche Telekom and KPN disclosed that they had held exploratory talks about a possible joint bid for O2, but talks had now ended. O2 ended the week 3% higher.



## Ireland

- On the home front, the Irish market was down 0.9% on the week affected by weaker sentiment in Europe. The market has had strong gains over the course of the summer.
- Ryanair was the only name of note to post solid gains as it benefited from a broker upgrade.



## Pacific Basin

- Following a period of very strong gains some Asian equity indices had sharp pullbacks last week – both Taiwan and South Korea's benchmarks fell over 3%.
- Energy stocks declined in tandem with a drop in the price of oil while Hong Kong banks were weaker after Dah Sing Financial reported disappointing results.
- Japanese equities rose as several economists upgraded their GDP forecasts and reform minded PM Koizumi's popularity continued to rise in the run-up to September's election.

## Eurozone Bonds

- Eurozone bonds added a further 0.8% this week, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- Data from the US indicating that inflation remains under control helped bonds prices to rise last week. Eurozone bonds were also helped by a well-received German 10 year government bond auction.

## Global Outlook

- Policymakers remain vigilant regarding the effects of high oil prices on growth and inflation. So far the negative impacts have been limited but persistently higher oil prices of over \$60 will only heighten their sensitivity.
- We have said for some time that inflation data will remain central to the Fed's policy actions over coming months. Fed guidance remains that rates will continue to rise at a measured pace, with markets anticipating rates to rise a further 0.5% at least, to over 4% by year end.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Long term eurozone interest rates fell somewhat last week, having risen in recent weeks by some 20 basis points. Bonds are expensive on an historical basis but remain supported by relatively sluggish eurozone growth, low inflation and pension fund liability matching.
- For 2005, global profit growth is still expected to be in the low double digits. Equities remain supported by strong corporate earnings, healthy balance sheets and favourable valuations relative to bonds and cash. Upside may be constrained by headwinds of rising US rates and the impact of high oil prices on the global economy.
- Currently, the funds remain underweight in bonds and slightly overweight equities versus the manager average. Sector-wise the funds have a more neutral bias, with a small overweight in basic industries and resources. In geographical terms, the funds are overweight in Europe and the Pacific Basin, slightly overweight in Japan and underweight in the UK and particularly in the US.