

Weekly Perspectives

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A Weekly View of Global Economies

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North America

Well, last week's US payroll report was decidedly less than stellar but this didn't bother Wall Street bulls who seem intent on having a bountiful Christmas. Risk appetite continues to be high and it will take a confluence of several pieces of untoward news to rock the US equity market

The dollar's decline, versus major currencies, is positive for a good number of stocks, Stateside. It will only become problematic if the fall is precipitate enough to cause fears of sharp interest rate increases. Right now, there is a nice boost to the earnings outlook of many US multinationals with lots of business abroad.

Tech stocks have put in an impressive performance since they plunged to low depths in August. They have come a long way since then, with the Nasdaq composite index starting to accelerate in November after pausing in the previous month. Evidently, investors have been keen to play the high-beta game.

Software stocks have had a very strong run, with many applications-software firms reaching 52-week highs. Enterprise-software stocks have also been on the rise.

But the good cheer has not been confined to software names. Hardware has also been doing well. Just have a look at Motorola or Qualcomm, among the big caps. And, some of the mid-cap ones have done even better.

Semiconductor stocks have picked up a little, boosted by some better news on sales from Intel. But money-flow into semis has generally been muted, as investors remain concerned about forward demand and capacity issues. However, even in this sector there have been bright sparks, such as Advanced Micro Devices.

It is quite possible that this momentum could carry through into the first quarter, but given the strength of the advance one cannot shake off the thought that a correction is probably overdue. However, the consensus view is that, statistically, December is a good month for the stock market.

Still, any tech strategy mindful of a bit of risk management has to take account of downside possibilities. An action plan would include the willingness to book some profit and take money off the table. It would also involve allocating some funds to lower-beta technology sub-sectors, such as IT services.

Virtually at the other end of the spectrum from technology stocks, pharmaceuticals have been struggling for air. Pfizer has been bashed down every time it has tried to reverse its downward trend.

Most other drug stocks have also been facing difficulties. Investors are gripped by negative sentiment and seem to be focussed on the structural headwinds faced by the sector.

Over in Europe, big pharma hasn't been doing much better, either. The correlation of their returns with the US drugs sector is high because a good chunk of their sales are in America. So they face much the same pricing pressures and regulatory risk as their US counterparts. At the same time, strong European currencies are hurting their earnings.

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On some valuation measures, the US pharma sector is fairly cheap relative to its history -- though momentum is lousy. But over in Europe, the big names are expensive in relation to the broad market.

Unfortunately, the forward prospects are challenging, and that's what investors are worried about. It may be a while before they warm up to pharmaceuticals. If we have an extended market correction, that may help to make the sector look relatively more attractive.

Europe

Declining oil prices haven't done much to boost auto stocks. Valuations are pretty low but nobody is biting yet. There is overcapacity and intense competition at the international level. Meanwhile, the strength of the euro reduces USD earnings translated into local currency, and squeezes export margins. But airline stocks are flying on the back of cheaper oil. At the same time, most retailers are having a tough time, while the telecoms sector continues to shine.

Asia/Pacific

Japan's index of leading economic indicators fell below fifty percent, for a second month in a row, in October. The trend is pointing to further slowdown ahead, which isn't good for sectors that depend on the health of the domestic economy. Meanwhile, the yen has been fluctuating in a sideways move, just above the 102 level to the USD, in the past two weeks. The Japanese currency is still under pressure to appreciate, and this can't be good for the exporters.

Bonds

The weak US payroll numbers, last Friday, surprised the bond market -- and Treasury prices rose as a consequence. But the consensus expectation is still for another 25 bps hike in the fed-funds rate next week. So, short-term rates have nudged higher than long-term ones, in curve-flattening trades.

Meanwhile, Eurozone government bond prices are being supported by the continued strength of the euro. At the same time, Japanese government bond prices are being underpinned by weaker-than-expected economic data.

Currencies

The US dollar hit another record low against the euro. In this context, the European Central Bank President joined Eurozone finance ministers in calling upon the US administration to support the dollar. As usual, this appears to have fallen on deaf ears.

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