

# Trading sideways...

**P**ropelled by a surge in technology, media and telecom (TMT) stocks late last year on optimism over the productivity gains enabled by information technology, global equity markets gained 23.6% on dollar terms in 1999, based on the MSCI world price index. However, as of mid-June, the index actually declined 2% this year, and global equity markets have been trading more or less in a band of +/- 5%.

The US is still the trend-setter in the global markets. The US represents roughly half the market capitalisation in the MSCI developed market universe. The TMT stocks, mostly traded on Nasdaq, have been under pressure. The Nasdaq index has come off its peak of 5048 attained on 10 March this year, and is now hovering at the 3000 level, some 25% off its peak.

Profit-taking was one major reason for the correction in technology stocks, as investors became more concerned

about the over-optimistic expectations of the earnings growth potential of some tech companies. Another major reason has been indirectly due to the booming US economy, which is in its ninth year of expansion, backed by consumer confidence and the wealth effect arising from the surging equity and housing prices. This has prompted the Fed to tighten, which led the Fed fund rates to rise to 6.5% or 100 basis points above the pre-Russian crisis level in 1998.

### Discreet

The market has now deserted some internet start-ups and focused on such heavyweights as Nokia, Siemens, Cisco Systems, and Intel. These US and European blue chips have indeed held up well since the 25% correction on Nasdaq to date. As some investors got hit by the internet fever earlier in the year, they will continue to be more discreet when they invest in TMT stocks.

With the S&P trading at an expected PE of 25, even higher than it was before the October 87 crash, there does not seem to be a lot of room for upward movement, unless earnings prospects brighten significantly.

Rising interest rates do worry some investors. They are not only concerned about worsening valuations, but also about funding costs. However, there are some signs that the Fed may be ahead of the curve and the US economy may be cooling, perhaps back to a trend of around 3.5% GDP growth a year. With some luck, we may see a 'soft landing'.

This positive scenario would be augmented by improving economic growth prospects in Europe and Japan/Asia. The consequence of a 'hard landing', in which the US economy spiralled into a recession, however, would be devastating to corporate earnings, which have supported the market so far at the relatively high level.

Therefore, in the near term, the market is likely to be nervous about any sign of rising inflation, Fed rate hikes, and increased probability of a hard landing. ■

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## INTERNATIONAL EQUITIES

These are a selection of issues announced recently. The details, updated to the middle of last month, were supplied by IFR Securities Data, London and other sources.

Issuer	Amount raised (m)	Type of issue	No shares (m)	Offer price	Pricing date	Exchange listing	Fees (%)	Bookrunner
<b>Actinic</b>	GBP22.8	IPO	30.9	GBP0.81	18 May/00	LSE	4	Dresdner Kleinwort Benson (a)
<i>Comment: UK developer of e-commerce software for small to medium sized enterprises. Will use funds raised to expand its product range. (a) Bookrunner and sole lead manager.</i>								
<b>IQE</b>	USD80	S	1.4	USD57	15 May/00	Easdaq LSE	-	Lehman Brothers Beeson Gregory
<i>Comment: Supplier of compound, specially designed semi-conductor epitaxial wafers used in electronics. Funds raised are to be used to speed up plans to expand manufacturing capacity and will buy new reactors and associated equipment.</i>								
<b>Knowledge Management Software</b>	GBP26.9	IPO	20.7	GBP1.3	23 May/00	LSE	-	Beeson Gregory (a)
<i>Comment: Knowledge solutions software company. (a) Sponsor &amp; financial adviser.</i>								
<b>Matalan</b>	EUR250	S	50	GBP5	16 May/00	LSE	-	UBS Warburg
<i>Comment: Discount clothing group.</i>								
<b>Parthus Technologies</b>	USD127	IPO	130(a)	GBP0.85	19 May/00	LSE Nasdaq	-	Goldman Sachs (b)
<i>Comment: Dublin-based computer chip designer. Makes firmware, a chip in mobile telephones and similar devices. (a) 130m shares of which 111.3m shares were primary, and 18.7 secondary. (b) Global co-ordinator.</i>								
<i>P = primary; S = secondary; IPO = initial public offering; D = demerger.</i>								