Weekly investment news

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EAGLE STAR

Global Overview

- The week started badly for equity markets as economic concerns, combined with terrorism fears, kept investors on the sidelines. By mid-week, a number of markets were below their levels at the start of the year.
- Thursday saw a sharp turnaround, however, when many stocks rallied strongly from oversold levels.
- Technology stocks were the biggest gainers as investors sought value in a sector which has under-performed year to date. The NASDAQ Index, which is dominated by technology stocks, bounced 3% on Thursday and registered a gain of 1% on the week.
- Bond market sentiment weakened at the end of the week in reaction to some US economic data.
- After a lacklustre month so far for equities, attention over the coming weeks is likely to focus on the Quarter 1 earnings results season, as well as US employment data, as a source of further market strength.

Market	Index	Year to Date Return 31/12/2003 to 26/03/2004		1 Week Return 19/03/2004 to 26/03/2004	
		Local Currency	Euro	Local Currency	Euro
US	S & P 500	-0.4	3.2	-0.2	1.1
US	NASDAQ	-2.2	1.3	1.0	2.3
Europe	FT/S&P Europe Ex. UK	1.4	1.4	-0.2	-0.2
Ireland	ISEQ	5.3	5.3	0.6	0.6
UK	FTSE 100	-2.7	2.5	-1.4	-1.1
Japan	Topix	12.7	18.4	3.4	5.6
Hong Kong	Hang Seng	-0.7	2.4	-2.4	-1.2
Australia	S&P/ASX 200	3.9	6.4	-0.2	-1.2
Bonds	Merrill Lynch Euro over 5 year	4.1	4.1	0.1	0.1

Equities

USA

- The assassination of the Hamas spiritual leader in the Gaza strip the previous weekend caused a sell off in US stocks on Monday and there was little in the way of economic news to lift sentiment.
- On Thursday, however, the latest data on initial jobless claims came in at a lower than expected level and oil prices fell back from $38 to just over $35 per barrel, as it appeared that OPEC would not implement threatened production cuts. This helped stocks to rally from what were perceived as oversold levels.
- The rally was helped by better than expected earnings news from handheld computer maker, PalmOne, and from investment banking giant, Goldman Sachs.
- Microsoft, which rose 3% on the week, proved resilient in the face of a European Commission ruling that it had abused a dominant market position and the imposition of a 497m. fine.

Europe

- The week was characterised by a heavy fall on Monday on the back of deteriorating macro economic indicators and a partial recovery on Thursday and Friday, fuelled by good corporate results from the likes of Inditex and Swiss Re.
- Cyclical and market sensitive sectors such as industrials and insurance out-performed, the latter helped by an advance of 5% in Swiss Re, while defensives such as food & beverages and energy gave up some of their recent out-performance.
- Inditex, the Spanish clothing manufacturer behind the Zara brand, was one of the biggest gainers of the week, recording a rise of 12.2% as investors reacted favourably to its 2003 results and announcement of higher dividends.

Ireland

- Highlight of the week in the Irish market was Elan, which rose almost 40% on continuing positive expectations for its multiple sclerosis drug. Elan is now the fourth largest stock on the ISEQ Index, behind AIB, Bank of Ireland and CRH. It accounts for just under 10% of the overall index.
- Among the financials, Bank of Ireland gave a reassuring trading statement, while Irish Life & Permanent was buoyed by rumours of a take-over.

UK

- The UK market had a disappointing week, falling 1.4%, amid fears of an interest rate hike and worries that the Madrid bombings might be repeated in Britain.
- The retail sector was hit by profit warnings from Boots and Sainsbury, which fell 15% and 12% respectively.
- On a more positive note, HBOS Bank had a good week following the appointment of a new finance director, while Man Group, the fund manager, announced strong results.

Pacific Basin

- Most Asian equity markets finished down last week due to political worries and profit- taking. Taiwanese equities fell 10% after the result of the country's presidential election was disputed by the losing opposition.
- Political uncertainty also weighed on Korea where the president was recently impeached.
- Japanese stocks bucked the downward trend, rising over 3% due to some positive economic news. Household spending rose at a faster than expected rate and the services industry posted its fastest rate of growth in almost four years. S&P also upgraded its outlook for the country's debt.

Eurozone Bonds

- The release of disappointing data from German economic institutes ZEW and Ifo, heightened speculation of an ECB interest rate cut this week and underpinned the shorter end of the eurozone bond market.
- The IFO Survey of German business confidence declined in March for the second month running, from 96.4 to 95.4, leading the president of the Institute to call for an interest rate cut.
- Expressions of concern by members of the ECB that consumer spending in the eurozone is too low also fuelled expectations of a cut in rates and helped counter-balance some of the negative impact of a fall-off in US treasury prices.

Currencies

- Strong Japanese economic data and further discussion about the apparent change in the Bank of Japan's intervention strategy resulted in a modest rise in the yen against the dollar, but stronger gains against a generally weak euro.
- The euro fell over 1% against the dollar, mainly on the heightened debate about rate cuts in the eurozone.

Global Outlook

- The global economy, led by the US, continues to be strong despite recent economic data, which suggests less vigour in activity in the past couple of months.
- The Fed is using low inflation as justification for maintaining US interest rates at their current ultra-low levels, although investors are highly sensitive to remarks/data that could alter the status quo.
- The ECB had also been keen to persist with unchanged rates. However, investors have become convinced that this stance will soften in coming months. Recent comments from ECB members substantiate this view.
- In the medium term bonds should remain less favoured than equities; however, in the short term bonds are being supported by a low inflationary background and low short rates.
- The economic picture remains broadly positive for equity markets, although valuations are once more an issue in certain markets and sectors. Historically, equity markets have continued to be supported even in the initial stages of tighter monetary policy.
- Our current stance is overweight equities and bonds versus the manager average. The funds continue to be overweight Asian equities due to more attractive valuations and better economic growth potential and are slightly overweight Japan. The funds have moved from overweight to closer to neutral in European equities. The UK exposure has been moved from underweight to neutral. The funds continue to have overweight sectoral positions in financials and industrials.

EAGLE STAR HOUSE FRASCATI ROAD BLACKROCK CO DUBLIN IRELAND TELEPHONE 01 283 1301 FAX 01 283 1578 WEBSITE www.eaglestarlife.ie