Weekly investment news

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EAGLE STAR

Global Overview

- Investor attention moved from interest rates to corporate earnings last week as the second quarter US earnings season began.
- There were disappointing results from some of the smaller technology companies in the software sector and the NASDAQ index fell 3% on the week.
- Oil prices rose to over $40 a barrel driven by a number of developments. Further sabotage on pipelines in Iraq as well as disruption to Nigerian oil supplies, due to a workers dispute, led to a rise in prices. Speculation that Yukos, a major Russian supplier, faced bankruptcy also caused concern.
- In currency markets, the US dollar fell to three-month lows against the euro. Recent US economic data has indicated that the Federal Reserve may not need to raise interest rates as aggressively as previously envisaged.
- The Institute of Supply Management's monthly measure of service sector activity in the US was weaker than expected although many of the key components remained strong.
- Statements by security officials in the US that terrorists are planning an attack to coincide with the US presidential elections added to geopolitical tensions.
- Bonds traded in a range this week helped by expectations of measured interest rate rises in the US and Europe.

Market	Index	Year to Date Return 31/12/03 to 09/07/04		1 Week Return 02/07/04 to 09/07/04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	0.1	1.5	-1.1	-1.7
US	NASDAQ	-2.9	-1.5	-3.0	-3.6
Europe	FT/S&P Europe Ex. U.K.	2.9	2.9	-0.8	-0.8
Ireland	ISEQ	10.7	10.7	0.0	0.0
UK	FTSE 100	-1.9	3.6	-0.3	0.4
Japan	Topix	9.9	10.7	-2.3	-2.7
Hong Kong	Hang Seng	-3.0	-2.1	-0.2	-0.7
Australia	S&P/ASX 200	8.0	5.2	0.8	1.5
Bonds	Merrill Lynch Euro over 5 year	3.0	3.0	0.2	0.2

Equities

USA

- The S&P 500 index declined last week on the back of profit warning by a number of companies in the software sector. This led to fears that the rebound in capital spending in the US and globally may be fading.
- There were weak reports from Peoplesoft, Veritas Software and Siebel Systems. Yahoo, the internet portal, reported results in line with market expectations. However, the stock fell over 10% as investor sentiment towards technology stocks weakened.
- There was better news from General Electric, the giant US conglomerate. The company released good results and upbeat comments about the economic environment.

Europe

- European markets fell on the week, as higher oil prices eroded sentiment.
- The technology sector was weaker on disappointing results from US software companies. Insurance stocks also came under pressure when UBS cut its recommendations on a number of reinsurers.
- Henkel, the German household products company, lowered its 2004 sales target claiming that slow demand in Germany has spread to other European markets.
- In the UK, Marks & Spencer rejected the final bid from Philip Green. M&S said the 400p-a-share cash proposal significantly undervalued the group.

Ireland

- The ISEQ index was flat on the week. CRH issued a statement concerning current trading conditions. The statement was positive and the company indicated that profits before tax would be $100 million higher than in the same period last year.
- Bank of Ireland held its agm on Wednesday, which was well received.

Asia Pacific

- Asian equity markets had mixed fortunes last week as gains in Australia and Singapore were offset by losses in Japan.
- Technology stocks were the worst performers as the sector was impacted by profit warnings from a small number of US companies.
- Japanese equities fell prior to elections over the weekend. There were worries that the ruling party could lose several seats, thus weakening the Prime Minister's position. Lacklustre US employment data, and a rebound in the oil price, also weighed on markets.

Eurozone Bonds

- Bonds held up well last week on the back of continued expectations of measured rises in interest rates and economic data showing that the US services sector had grown more slowly than expected.
- Eurozone bonds were helped by comments from Axel Weber, an ECB board member, that borrowing costs for the eurozone region were "appropriate". However, there were continued concern that inflation was likely to remain above the ECB target of 2% for some time as the oil price moved back to $40 per barrel last week.

Global Outlook

- Activity levels in the global economy remain high. The eurozone has continued to be a laggard because of weak consumption in Germany. Japan is the fastest-growing G7 economy according to first quarter data. The much-watched Chinese economy is slowing from a period of torrid growth.
- The Fed has commenced its well-flagged tightening cycle, beginning with a 0.25% increase to 1.25%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures will be closely watched by both eurozone and US central banks in coming months, although the ECB's official stance is that it has no bias as to the next change in rates.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric. In addition, global growth indicators are now anticipating a slight loss of momentum in the pace of economic expansion.
- Strong profits and earnings' revisions have validated last year's strong price gains; this year's overall performance for global equities has been more muted. Nevertheless, underlying profit strength and lower valuations than last year offer support to equity markets - although the current US Q2 earnings season will give investors a clearer picture.
- Our current stance is neutral to slightly overweight equities versus the manager average. We have made a tactical move from underweight to neutral bonds. The funds continue to have slightly overweight sectoral positions in cyclical areas such as general industrials and basic materials, while remaining underweight in utilities. Financials have been moved from neutral to underweight, given their sensitivity to the prospect of rising interest rates. As regards geographical bias, the funds are overweight Europe and underweight the UK and have moved from underweight to neutral in the Pacific region.