Weekly investment news

Issued on 30th August 2004

EAGLE STAR

Global Overview

- Equity markets bounced last week on the back of a sharp decline in oil prices. News that pipelines in Iraq were back pumping oil following weeks of disruption helped crude prices to decline by over 7%. Oil inventory reports from the US were also better than expected. The oil price finished the week at $43.30.
- Economic data was a bit weaker than expected with U.S. durable goods orders for July being the most noteworthy. US GDP figures were revised downwards to 2.8% in line with expectations.
- Economic data from Europe was better with the Ifo survey on business sentiment from Germany beating expectations.
- On currency markets, the US dollar strengthened to $1.20 against the euro as oil prices fell and the economic outlook improved. Sterling was also strong against the euro as upbeat GDP data from the UK indicated that UK consumers are still spending.

Market	Index	Year to Date Return 31.12.03 to 27.08.04		1 Week Return 20.08.04 to 27.08.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-0.4	4.2	0.9	3.3
US	NASDAQ	-7.1	-2.8	1.3	3.8
Europe	FT/S&P Europe Ex. U.K.	1.4	1.4	2.9	2.9
Ireland	ISEQ	11.1	11.1	2.0	2.0
UK	FTSE 100	0.3	5.3	2.8	3.6
Japan	Topix	9.0	11.8	2.5	4.8
Hong Kong	Hang Seng	1.9	6.1	3.6	6.1
Australia	S&P/ASX 200	7.9	5.5	1.8	1.3
Bonds	Merrill Lynch Euro over 5 year	5.1	5.1	0.0	0.0

Equities

USA

- Equity markets in the US moved ahead last week as oil prices declined. Healthcare stocks outperformed and consumer staples under-performed.
- Trading was quiet and is expected to be slow again this week due to the Republican convention in New York.
- On the corporate front, both Wal- Mart and Starbucks shares declined after they released disappointing sales figures. HJ Heinz reported an 8% rise in quarterly profits causing its shares to gain 3% on the week.

Europe

- European stocks followed their US counterparts upwards helped by lower oil prices and a number of positive earning reports.
- Airlines stocks benefited from the fall in oil prices. Lufthansa, Iberia and Air France all ended the week in positive territory. However, Alitalia, the Italian carrier, dropped to an all time low following a grim warning from the company CEO. The Italian government have threatened to let the airline go bankrupt if the unions fail to agree to a cost-cutting deal.
- In the UK, GlaxoSmithKline stock gained 6% after the drug-maker settled a US lawsuit relating to antidepressant, Paxil.
- The UK insurance sector was helped by positive comments on the sector from Lehman Brothers. Legal & General rose 7% while Prudential gained 4%.

Ireland

- On the Irish market, Ryanair, the budget airline gained due to the fall in oil prices.
- Irish Life and Permanent will be the focus in the coming week when they release interim results on September 1st

Pacific Basin

- Asian stocks rose last week as a sharp drop in the oil price eased concerns about slower global growth.
- Hong Kong property stocks were particularly strong as the return of inflation to the territory stoked investor interest in the sector.
- Economically sensitive industries generally outperformed due to the more upbeat global outlook.

Eurozone Bonds

- Bonds were flat last week despite the rise in equity markets and upbeat comments from Federal Reserve officials. They commented that the expansion in the US economy was self-sustaining and that higher oil prices would not derail it. The fall in the oil price may help to ease concern about world economic growth and as a consequence, weaken demand for bonds as a safe haven environment.
- The expected slow pace of interest rate increases, particularly in Europe, continues to be bond supportive. Concern over terrorist activity and continued evidence of benign inflation data has also helped underpin prices.

Global Outlook

- Activity levels in the global economy remain high, although there has been some softness in recent US and Japanese data. The eurozone has been a laggard but is now back to its trend growth rate. The much-watched Chinese economy is slowing from a period of torrid growth. A high and sustained oil price should lower growth but increase inflation. The recent decline in the oil price is a positive.
- The Fed has commenced its well-flagged tightening cycle, beginning with two 0.25% increases to 1.5%. 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 loss of momentum in the pace of economic expansion, albeit from high levels.
- 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. Underlying profit strength and lower valuations than last year offer support to equity markets; however, recent earnings' guidance from some US companies has been a bit disappointing. Terrorism worries and the rising price of oil have sapped the demand for equities over the past six weeks, but markets' behaviour has been much better in the past week or so helped by recent weakness in the oil price.
- Our current stance is overweight equities versus the manager average and slightly underweight in bonds. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials, and an underweight position in consumer staples. Financials have been moved from neutral to overweight. As regards geographical bias, the funds are overweight Europe and the Pacific region and underweight the UK and the US, while the Pacific region has been increased from underweight to slightly overweight.

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