Weekly investmentnews

Issued on 11th July 2005

EAGLE STAR

Global Overview

- The re-emergence of terrorism shook equity markets last week. The tragic events in London, mainly affected markets on Thursday when stocks fell between 2% and 3%. European and US equity markets recovered on Friday to finish the week in positive territory.
- Bonds markets rallied temporarily in the immediate aftermath of the explosions benefiting from "flight to safety" trading. However, the negative impact of the attacks on investor sentiment quickly dissipated as it emerged that the economic repercussions was likely to be limited.
- Oil prices continue to attract attention with prices hitting highs of over $61 per barrel. Traders are citing hurricanes in the US and robust US petrol demand as the current oil price drivers.
- On the interest rate front, the Bank of England left interest rates unchanged at 4.75%. However, there is mounting evidence of a slowdown in the UK and an interest rate cut is expected in August.
- Speculation regarding an interest rate cut by the European Central Bank has eased somewhat due to euro weakness against the US dollar. A weaker euro is beneficial for eurozone growth because it makes eurozone companies more competitive relative to their foreign counterparts. Interest rates in Europe are 2% at present.

Market	Index	Year to Date Return 31.12.04 to 08.07.05		1 Week Return 01.07.05 to 08.07.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	0.0	13.7	1.5	1.8
US	NASDAQ	-2.9	10.4	2.7	3.0
Europe	FT/S&P Europe Ex. U.K.	9.9	9.9	0.4	0.4
Ireland	ISEQ	5.3	5.3	-0.5	-0.5
UK	FTSE 100	8.7	11.8	1.4	-0.4
Japan	Topix	2.4	6.3	-0.4	-0.7
Hong Kong	Hang Seng	-1.9	11.6	-1.7	-1.4
Australia	S&P/ASX 200	4.4	12.3	-1.0	-2.2
Bonds	Merrill Lynch Euro over 5 year Govt.	6.6	6.6	-0.2	-0.2

Equities

USA

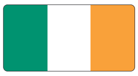
- The US had a quiet start to the week with markets closed on Monday due to the Fourth of July holiday. However, the terrorist attacks in London on Thursday lead to volatility as the week progressed.
- Positive US consumer confidence numbers and a healthy start to the second quarter earnings season helped US equities make ground.
- Alcoa, the world's largest aluminium maker, posted the best quarterly profit in its history on Friday. Wal-Mart shares rose 3% when it announced that sales in its stores have increased in June.
- Technology stocks outperformed and utilities underperformed.

Europe

- European markets demonstrated their resilience to the London bombings and ended the week marginally in the black. The UK market outperformed its continental peers.
- There was a good deal of corporate news with speculation that PepsiCo is about to launch a bid for Danone. Despite Danone's denial of the rumours, the stock rose 11%.

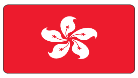
Europe

- Fiat also had a good week following upbeat comments from the company's chief executive.
- Michelin, the French tyre maker, faced further difficulties following on from its Grand Prix fiasco a few weeks ago. The stock fell 6% due to concerns over rubber prices which continue to rise on the back of strong demand from China.



Ireland

- On the Irish market, CRH announced a positive trading statement. Construction related stocks received a boost due to the possible knock on benefits of the London Olympics in 2012.
- Grafton Group released a trading statement which was in line with expectations.



Pacific Basin

- Asian markets underperformed last week. Most Asian markets were closed at the time of the terrorist attacks which had little lasting impact on markets there.
- CNOOC, the Chinese oil company, continued to make headlines due to its $18.5 billion bid for US oil group, Unocol. The potential takeover has caused upset in political circles in the US due to concerns over potential breaches of security.
- Sanyo announced that it is to cut roughly 15% of its workforce in an effort to restructure the company.
- The Hong Kong market suffered due to weakness in the property sector as local banks raised interest rates more aggressively than had been predicted.

Eurozone Bonds

- Eurozone bonds came under pressure early last week due to receding expectations of an interest rate cut following stronger German economic data and a weakening euro.
- Government bond prices around the world jumped following the terrorist attacks as investors scrambled into bonds to take advantage of their safe haven status. However, bond prices fell back as the extent of the explosions became clear and a level of stability returned to the market. The Merrill Lynch over 5 year government index declined 0.2% on the week.

Global Outlook

- The global economy will continue to slow in the second half of the year. Policymakers remain vigilant regarding the effects of high oil prices on growth and inflation. The rise in the oil price to around $60 will only heighten this sensitivity.
- We have said for some time that inflation data will remain central to the Fed's policy actions over coming months. Fed guidance is that rates will continue to rise at a measured pace, with markets anticipating rates to rise a further 0.75% to around 4% by year end. However, it is quite possible that rates may peak below that level.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Long term eurozone interest rates are at 60 year lows after the recent strong performance from eurozone bond markets. Bonds are expensive on a historical basis but remain supported by sluggish growth, low inflation and pension fund liability matching.
- For 2005, global profit growth is still expected to be in the low double digits. Equities remain supported by strong corporate earnings, healthy balance sheets and favourable valuations relative to bonds and cash. Upside may be constrained by headwinds of rising US rates, in particular, and a slowing global economy.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sector-wise the funds have shifted to a more neutral bias. In geographical terms, the funds continue to be neutral the UK and Japan and close to neutral in the Pacific Basin, underweight the US, while overweight Europe.