Weekly
investment news

26th June 2006

EAGLE STAR

Global Overview

Interest Rate concerns
Concerns over US interest rates dominated markets this week ahead of the Federal Reserve meeting next Thursday. Rates are expected to increase by a quarter of a percent to 5.25%.

European Markets
Most of the European markets made advances for five consecutive trading sessions this week leaving the FTSE Europe ex UK index up 2.3%

Commodity markets
Oil prices increased this week on the back of concerns regarding tightness in US petrol supplies during the summer period and concerns over the Atlantic hurricane season.

Currency markets
The US dollar was stronger during the week reaching a two month high against the euro due to talk of higher interest rates in the US and a sell-off in some emerging market currencies.

Market	Index	Year to Date Return 31.12.05 to 23.06.06		1 Week Return 18.06.06 to 23.06.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-0.3	-5.8	-0.6	0.2
US	NASDAQ	-3.8	-9.1	-0.4	0.4
Europe	FT/S&P Europe Ex. U.K.	0.7	0.7	2.3	2.3
Ireland	ISEQ	-0.8	-0.8	-0.2	-0.2
UK	FTSE 100	1.3	1.4	1.7	1.0
Japan	Topix	-6.3	-10.2	0.7	0.5
Hong Kong	Hang Seng	6.3	0.2	-0.2	0.5
Australia	S&P/ASX 200	4.2	-1.7	-0.1	-0.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-5.2	-5.2	-1.2	-1.2

Equities

USA

Overview
The US market finished the week in slightly negative territory. However, markets were positive in euro terms due to a strong US dollar over the week.

Key Movers
Investment Banks – The S&P investment banking sector was up 2.5% this week. Morgan Stanley helped the index after it reported a doubling of second quarter profits. The stock closed up 5.2% over the week.

Energy Sector – Consolidation was in the news in the US energy sector this week with Kerr McGee and Western Gas Resources jumping 33.6% and 41.3% respectively after Anadarko Petroleum announced it was buying the two companies for a combined total of $21bn.

Europe

Overview

European markets advanced strongly this week rising during all trading sessions finishing the week up 2.3%.

Key Movers

Telecoms – Siemens and Nokia announced a €20bn joint venture that will form the world's third-largest network equipment supplier.

Philips – Philips, the Dutch electronics group rose sharply on the week on the back of an announcement of plans to sell or float its semiconductor units which will help to reduce the volatility of earnings.

Ireland

CRH – CRH, the Dublin based building materials group, said it had an exclusivity agreement with Ashland, a US chemicals business, to buy its Apac division based in Atlanta. The acquisition would reinforce CRH's position in the US as the leading asphalt producer.

Asia Pacific

Overview

Much of the focus of Asian equity markets was on concerns that the Bank of Japan would raise interest rates shortly. This was reinforced by signals from Toshihiko Fukui, the Bank of Japan Governor, that there would be "an early adjustment in monetary policy".

Macquarie Bank – Macquarie Bank, the acquisitive Australian bank, bought the London bus operations of Stagecoach for £264m. It is expected that Macquarie will probably look to make another acquisition in the London bus market.

Bonds

Eurozone bonds weakened and yields rose on the week with the Merrill Lynch over 5 year index down 1.2% due to fears over higher interest rates ahead of the Federal Reserve meeting next Thursday.

Global Outlook

- Growth expectations remain at high levels with global GDP now expected to expand by 3.7% in 2006, slightly above last year's figure of 3.6%. The major central banks are focused on cyclical inflation pressures and strong commodity prices.
- Investors are keenly focused on the Fed meeting towards the end of this week to see whether rates will change from the current 5% level. The probabilities assigned to a further hike or a pause in rate moves have jumped around over the past few weeks, as markets try to gauge the impact of new economic data on the debate within the Fed. Investors fully expect a 0.25% increase this week and, most likely, another 0.25% by year end.
- Despite moderate inflation in the eurozone, rising short rates and less than expected demand from pension funds have kept bond prices under pressure so far this year. The ECB raised rates as forecast to 2.75% recently and investors continue to expect two more 0.25% increases over the course of the year.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; high oil prices and tighter liquidity conditions from higher interest rates remain a concern. The gradual ending of super-easy money policies in Japan continues to deserve attention because of its potential negative impact on various asset classes.
- Currently, the funds are close to neutral in bonds and equities versus the manager average. Sectorwise, positions are currently pretty balanced as well. Geographically the funds are underweight Ireland and Japan, and more neutral in the other regions with the European overweight having been re-deployed into the US.

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