Weekly
investment news

31st July 2006

EAGLE STAR

Global Overview

Equity markets rally
Global equity markets recorded excellent returns last week with European and UK markets delivering their best weekly returns in three years. Markets were underpinned by better than expected corporate earnings and merger and acquisitions activity.

US economic data
In the US, GDP data came in weaker than expected at 2.5%. The data helped both bond and equity markets by causing interest rate expectations to fall.

Oil prices stay above $70 per barrel
Oil prices fell 2% on weaker US GDP data during the week but remained high at $73 per barrel due to continued fighting between Israel and Hizbollah. Tensions in Nigeria and data showing strong demand from China have also contributed to high prices. Petrol demand in China grew 19% year on year to the end of June.

Commodity prices recover
Commodities prices recovered some of their losses from the previous week. Copper recorded the best returns due to expected strike action by miners in Chile, home of the world's largest copper mine.

Market	Index	Year to Date Return 31.12.05 to 28.07.06		1 Week Return 21.07.06 to 28.07.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.4	-4.9	3.1	2.6
US	NASDAQ	-5.0	-11.9	3.7	3.1
Europe	FT/S&P Europe Ex. U.K.	5.0	5.0	4.2	4.2
Ireland	ISEQ	1.9	1.9	1.6	1.6
UK	FTSE 100	6.3	7.1	4.5	4.3
Japan	Topix	-5.5	-9.8	2.9	3.8
Hong Kong	Hang Seng	14.0	5.6	3.0	2.5
Australia	S&P/ASX 200	4.1	1.0	-0.1	1.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-3.5	-3.5	0.3	0.3

Equities

USA

Overview
Wall St. rallied last week due to strong earnings results and hopes that the Federal Reserve may be coming to the end of the current cycle of interest rate rises.

Key Movers
Pharmaceutical stocks – Pharmaceutical stocks were among the best performers last week in the US. Merck rose 9% after it reported that profits almost doubled in the second quarter. Pfizer also rose 10% due to strong results and continued strong sales of its cholesterol drug, Lipitor.

Auto stocks – General Motors stock was up 12% on better then expected results despite reporting a quarterly loss of $3.2 billion due to charges from their redundancy program. Ford also rose 9% on the week.

Exxon Mobil – The oil company rose 5% when it reported more than $10 billion in second quarter profits.

M&A activity – In acquisitions news, HCA, the US hospital operator, was acquired by a private equity consortium for $33 billion including debt.

Europe

Overview

European markets delivered excellent returns last week driven by better than expected earnings results particularly from auto stocks.

Key Movers

Auto stocks – Volkswagen stock jumped 13% after it reported a 50% rise in operating profits. Shares in DaimlerChrysler rose 7% due to super performance from its Mercedes division. Renault was also up 9%. Peugeot bucked the trend by delivering its third profit warning in 12 months. The stock fell 9%.

EON – Eon received approval from the Spanish energy regulator for its €27 billion takeover of Endesa, the Spanish energy supplier. Both share prices rose over 10% as a result.

Xstrata – In the UK, mining company Xstrata rose over 7% supported by news that rival Inco had pulled out of the race to buy Canada's Falconbridge.

Ireland

Elan – The commercial launch of Tysabri, the multiple sclerosis drug, occurred last week in the US. In Europe, the drug has been rolled out in Germany, Ireland, the UK and Sweden and is due to launch in five further countries by September. The share price was up over 10% on the week.

AIB – AIB was the best performer of the banks rising 2.6% on the week in anticipation of upbeat quarterly earnings on Tuesday, 1st August.

Asia Pacific

Asian stocks rally – Hong Kong put in a strong performance, rising 3% on the week due to the fall in interest rate expectations in the US.

Australian market declines – The Australian market registered a marginal decline on the week due to an unexpected jump in inflation. Inflation is now running at 4% leading to expectations of an interest rate rise to 6% next week.

Bonds

Eurozone bonds finished the week in positive territory, the Merrill Lynch over 5 year index rising 0.3% on the week. The main influence on world bond markets was weaker than expected GDP data from the US which lowered expectations of a US interest rate rise in August. Eurozone bonds were lifted by the rally in the US. The European Central Bank is widely expected to raise rates by 0.25% to 3% this Thursday, a move which has largely been priced in by the market.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand by 4.0% in 2006, slightly above last year's figure of 3.7%. The major central banks are focused on cyclical inflation pressures and strong commodity prices.
- The Fed recently raised rates to 5.25%. The probabilities assigned to a further hike or a pause in rate moves have jumped around over the past few weeks. At the moment, the market see a pause in August and one further hike of around 0.25% at some stage before year end, with rates peaking at that level for this cycle.
- The ECB raised rates, as forecast, to 2.75% recently and markets expect at least two more 0.25% hikes by year end, one of them this Thursday, the 4th August. Bond prices have taken some comfort of late from well-behaved underlying inflation data and the thought that growth might peak in 2006.
- 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 continue to be a concern and periods of volatility are likely. The gradual ending of super-easy money policies in Japan deserves attention because of its potential negative impact on various asset classes.
- Currently, the funds are slightly overweight bonds and equities versus the manager average. Sectorwise, positions are currently pretty balanced, although financials are once again overweight. Geographically the funds remain underweight Ireland and more neutral in the other regions.