Weekly
investment news

28th August 2006

EAGLE STAR

Global Overview

Weak economic data weighs on equity markets
Economic data on both sides of the Atlantic came in weaker than expected last week leading to subdued equity market returns. Bond markets rallied on the back of the data.

US housing data
Evidence of a slowdown in the US housing market mounted with the release of housing data which showed a 4% decline in both new and second hand home sales. New home sales were down 22% year on year to the end of July in the US. US durable good orders also fell more than forecast.

Eurozone investor confidence
In Germany, the ZEW survey of investor confidence came in weaker than expected leading to concerns about the euro-zone economic recovery. The Ifo Index of German consumer confidence eased fears later in the week as it did not fall as much as anticipated.

Japanese inflation
Japanese inflation rose by just 0.2% in July giving rise to doubts about future interest rate hikes in Japan and about the strength of the economic recovery. The yen fell against most other major currencies as a result of the data.

Oil prices
Oil prices rose on the week as the deadline for Iran to halt work on its nuclear programme or face UN sanctions approached. Hurricane warnings also affected trader sentiment.

Market	Index	Year to Date Return 31.12.05 to 25.08.06		1 Week Return 18.08.06 to 25.08.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	3.8	-3.8	-0.6	-0.2
US	NASDAQ	-3.0	-10.0	-1.1	-0.7
Europe	FT/S&P Europe Ex. U.K.	6.9	6.9	-0.1	-0.1
Ireland	ISEQ	6.9	6.9	1.4	1.4
UK	FTSE 100	4.6	6.5	-0.4	0.3
Japan	Topix	-1.8	-8.4	-1.3	-2.2
Hong Kong	Hang Seng	14.0	5.4	-2.2	-1.9
Australia	S&P/ASX 200	5.5	0.8	-0.6	-0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	-2.0	-2.0	1.0	1.0

Equities

USA

Overview
The US markets moved lower last week driven by poor economic data and rising oil prices.

Key Movers
Home retailers – Home stocks performed poorly due to the fall in home sales. Home Depot was down 4%. Lowe's fell 10% following the release of second quarter earnings that were weaker than expected.

Recruitment firms – Monster Worldwide and Robert Half International both declined 7% due to worries about the economic slowdown in the US.

Energy Stocks – Energy stocks bucked the trend and performed well. ExxonMobil rose to an all time high of $71 and Marathon Oil rose 6%.

Europe

Overview

European markets declined less than other indices due to support from mergers and acquisitions activity.

Key Movers

Bank merger – Two of Italy's leading banks, Banco Intesa and Sanpaolo IMI, announced that they are to meet to discuss a merger of equals. The news went down well with investors with Banca Intesa up 6% and Sanpaolo rising 9%.

Opap – The Greek gaming group fell 9% after shares were hit by a lower than expected 29% rise in second quarter net profit.

Ireland

Anglo Irish Bank – The Irish market rose over 1%, with Anglo Irish Bank particularly strong. The stock added 7% on expectation that a trading statement to be delivered on the 5th September will deliver positive news.

Elan – The Elan share price was up 7% on the week as early clinical trials for its Alzheimer's drug continue to make good progress.

Ryanair – The airline continued to suffer the effects of heightened security measures at UK airports and lost 0.8% on the week.

Asia Pacific

Export stocks – Asian markets had a difficult week with exports stocks performing badly on fears of a slowdown in the US. Japanese auto stocks such as Toyota and Nissan declined.

Hong Kong – The Hang Seng index was down due to disappointment at results from conglomerates Hutchinson Whampoa and Cheung Kong.

Bonds

Bond markets received a significant boost during the week with the release of weaker-than-expected housing data in the US. Eurozone bonds rallied on the news and were also helped by soft German inflation data. The Merrill Lynch > 5 year Index rose 1.0% on the week.

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 have been focused all year on cyclical inflation pressures and strong commodity prices and short rates globally have risen further.
- The Fed paused in its policy of raising US interest rates at its recent meeting, leaving them unchanged at 5.25%. Investors still see some modest additional tightening before year end, with rates peaking for this cycle at close to 5.5%. This expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation.
- The ECB recently increased rates to 3%, as fully expected by the market. Expectations of future hikes haven't changed much since then. Investors still expect rates to end this year between 3.25% and 3.5%. 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 close to neutral on both bonds and equities versus the manager average. Sectorwise, positions are pretty balanced at the moment. Geographically the funds remain underweight Ireland and more neutral in the other regions.