Weekly
investment news

2nd October 2006

EAGLE STAR

# Global Overview

**Equity markets rally**

The prospect of a soft landing in the US supported equity markets last week. There were strong gains on most exchanges with the US and Europe both rising by around 2%.

**Oil prices**

Equity markets were also helped by falling oil prices which were down to below the $60 per barrel level. Prices are now down more than 21% since early August. Nigeria and Venezuela said yesterday they would cut oil output amounting to about 7% of Opec's estimated production.

**Economic data**

In the US, the University of Michigan consumer sentiment index and the Chicago Purchasing Management index for September came in well above expectations underpinning the view that the US economy is still healthy despite escalating concerns over the property market.

**Currencies**

On currency markets, the US dollar climbed 0.9% against the euro on the back of higher than expected inflation figures from the US. In the UK, sterling came under pressure due to a downward revision to second quarter growth and dovish comments from a monetary policy committee member. Sterling fell 1.8% against the dollar and 0.9% against the euro.

| Market | Index | Year to Date Return 31.12.05 to 29.09.06 | | 1 Week Return 22.09.06 to 29.09.06 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S&P 500 | 7.0 | -0.2 | 1.6 | 2.5 |
| US | NASDAQ | 2.4 | -4.5 | 1.8 | 2.7 |
| Europe | FT/S&P Europe Ex. U.K. | 10.8 | 10.8 | 2.1 | 2.1 |
| Ireland | ISEQ | 11.7 | 11.7 | 1.0 | 1.0 |
| UK | FTSE 100 | 6.1 | 7.8 | 2.4 | 1.7 |
| Japan | Topix | -2.4 | -9.0 | 3.0 | 2.5 |
| Hong Kong | Hang Seng | 17.9 | 9.5 | -0.3 | 0.5 |
| Australia | S&P/ASX 200 | 8.2 | 2.7 | 3.4 | 3.5 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | -0.7 | -0.7 | -0.1 | -0.1 |

# Equities

## USA

**Overview**

In a strong week for US equities, the S&P 500 reached its highest level for five and a half years.

**Key Movers**

Intel – The technology giant rose 9% as the courts dismissed a legal challenge from rival Advanced Micro Devices.

General Motors – The carmaker jumped 9% on the week on the back of a possible alliance with Nissan and Renault.

Tobacco stocks – In New York, courts granted class action status to smokers of low tar cigarette exposing tobacco companies to $200 billion worth of damages. Altria fell 7% on the news.

## Europe

### Overview

Spanish stocks were the star performers on European markets last week due to merger and acquisitions activity in the utilities sector.

### Key Movers

Spanish utilities – Endesa and Iberdrola rose 14% and 9% respectively last week. Iberdrola rose on news that construction group ACS is now the biggest shareholder in the company and may look to foster a merger with another utility company. Endesa rose after Spanish conglomerate Acciona bought 10% potentially foiling a bid from Germany's Eon.

European truck makers – German carmaker Volkswagen announced it would not sell it's shares in Sweden's Scania to Germany's MAN. VW said it favoured a three way merger between MAN, Scania and Volkswagen.

## Ireland

Strong economic growth – Irish economic growth continued to be strong with consumer spending up 7% year on year.

Airlines – Lower oil prices helped the Ryanair stock to rise 4% on the week. Aer Lingus launched on the grey market at €2.20 per share last week rising to €2.48.

## Asia Pacific

Japan – The Japanese market rose strongly on the back of upbeat consumer confidence data from the US with export oriented stocks such as Sony doing particularly well.

Australia – The Australian market was one of the best performing markets on the week as mining companies such as Rio Tinto and BHP Billiton recovered some of their recent declines.

# Bonds

Bond prices fell marginally last week as equity markets rallied due to strong consumer confidence data and falling oil prices. Expectations of a rate rise in Europe this week also took their toll. The Merrill Lynch > 5 year Index fell 0.1% on the week.

# Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand robustly again in 2006, although leading indicators suggest some growth moderation in 2007. The major central banks have been focused all year on cyclical inflation pressures and strong commodity prices and short rates globally have risen further.
- As expected, the Fed left rates unchanged at 5.25% at its recent meeting. Investors now believe that interest rates have peaked for this cycle. This expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation.
- The ECB increased rates to 3% in August, as fully expected by the market. Expectations of future hikes have not changed much since then, despite continued hawkish comments from ECB officials. Investors still expect rates to end this year close to 3.5% with a 0.25% hike fully priced in for this week. 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; 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 neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, positions are pretty balanced at the moment. Geographically, the funds are overweight in Europe, underweight Ireland and the US and more neutral in the other regions.