Weekly investment news

Issued on 22nd March 2004

EAGLE STAR

Global Overview

- The renewed threat from global terrorism continued to cast a shadow over equity markets, although price declines were more muted than in the previous week and some markets registered positive returns.
- News that the Madrid bombing was the likely work of Al Qaeda resulted in a surprise election victory for the Socialist Party in Spain, and this caused some jitters on European bourses. Meanwhile, the US was affected on Friday by a bomb scare in a school in Washington.
- Economic indicators were not particularly supportive. In the US, the Empire State and Philadelphia Fed manufacturing surveys were weaker than expected, as was the index of leading economic indicators. In Europe, the German ZEW survey of business sentiment for February was lower than in the previous month.
- Oil prices rose over 5%, reaching €37 per barrel, their highest level since October 1990 when Saddam Hussein invaded Kuwait. This raised fears of further threats to economic growth.
- On the plus side, US inflation increased only modestly and the Federal Reserve decided to leave interest rates unchanged from their historically low levels. Eurozone inflation was confirmed at 1.6%, well below the ECB target of 2%, and this renewed speculation about an interest rate cut.

Market	Index	Year to Date Return 31/12/2003 to 19/03/2004		1 Week Return 12/03/2004 to 19/03/2004	
		Local Currency	Euro	Local Currency	Euro
US	S & P 500	-0.2	2.1	-1.0	-1.1
US	NASDAQ	-3.1	-0.9	-2.2	-2.8
Europe	FT/S&P Europe Ex. UK	1.6	1.6	-1.7	-1.7
Ireland	ISEQ	4.7	4.7	1.2	1.2
UK	FTSE 100	-1.3	3.7	-1.1	0.0
Japan	Topix	9.0	12.2	2.8	5.9
Hong Kong	Hang Seng	1.7	3.6	-1.1	-1.7
Australia	S&P/ASX 200	4.1	6.0	1.0	2.5
Bonds	Merrill Lynch Euro over 5 year	3.9	3.9	0.1	0.1

Equities

USA

- On the S&P 500, the terrorist threat and rise in oil prices helped energy stocks out-perform, and caused airline stocks to under-perform. The latter were also hit by a profit warning from Delta Airlines which fell 13% on the week.
- Technology stocks continued to under-perform due to ongoing concerns at the high level of valuations and some mixed earnings results.
- Financials were supported by better than expected earnings from Lehman Bros., Bear Stearns and Morgan Stanley, as well as the acquisition for $1.2bn. of Community First Bankshares by BNP Paribas.

Europe

- The unexpected victory of Spain's Socialist Party in Sunday's election caused shudders on European markets early in the week, but they recovered some ground thereafter as investors focused on attractive valuations and encouraging earnings news.
- The best performances were in defensive sectors such as tobacco and retail, as well as oils, which were helped by the rise in crude prices, although Royal Dutch Shell disappointed with the announcement of another revision to its reserves estimates.
- The insurance sector had a busy week of results with Munich Re, the world's biggest re-insurer, reporting strong results in its main re-insurance business in 2003 and pointing to a strong outlook. Italy's Generali also reported better than expected numbers.

Ireland

- The highlight of the week on the Irish market was the flotation of Eircom at €1.55 per share, which was at the lower end of the indicative price range and offers a dividend yield of 7%. There was active trading in the stock on Friday after the float and the share price ended the week slightly lower than the issue price at €1.54.

UK

- The UK Budget on Wednesday held few surprises for the market, although the strength of the economy raised fears of a further interest rate hike and drove sterling higher.
- Airline and travel stocks were hit by the terrorism threat, with British Airways falling almost 5% on the week.
- Among oil stocks, BP had a good week, rising 1.5% in response to higher oil prices but, in the case of Shell, this was overshadowed by a second cut in its oil reserves and the stock fell 3.1%.

Pacific Basin

- Asian equity markets produced mixed returns last week. Japanese stocks rose with financial stocks leading the way, in part due to takeover speculation. Equities in Hong Kong fell, dragged down by the Chinese mobile operators, due to fears of increased competition. Korea recouped some of its losses from the previous week as investors took a more benign view of the political outlook after the impeachment of the president.

Latin America

- Mexico had a good week, recording a rise of 2%, on the back of the move in the oil price as the energy sector accounts for a large proportion of the Mexican market. Brazil also put in a good performance, rising 2% in response to an unexpected interest rate cut.

Eurozone Bonds

- There was renewed speculation of eurozone interest rate cuts in the wake of the Madrid bombings and lower Eurozone inflation figures and this helped underpin the previous week's strong gains in bond prices.
- Poor business sentiment data from Germany also increased expectations that the ECB might move to lower rates.
- Bonds also continued to gain from their safe haven status in the face of general terrorist concerns.

Currencies

- There was a strong rally in the yen as the Bank of Japan appeared to substantially lower its volume of foreign exchange intervention. The yen rose 3.6% against the dollar and 2.9% against the euro.
- Sterling also strengthened against the dollar and euro amid speculation of a further rise in UK interest rates as economic data pointed to buoyant retail sales and a booming housing market.

Global Outlook

- The global economy, led by the US, continues to be strong despite recent economic data which suggest less vigour in activity in the past couple of months.
- The Fed is using low inflation as justification for maintaining US interest rates at their current ultra-low levels, although investors are highly sensitive to remarks/data that could alter the status quo.
- The ECB had also been keen to persist with unchanged rates. However, recently investors have become convinced that this stance will soften in coming months.
- In the medium term bonds should remain less favoured than equities; however, in the short term bonds are being supported by a low inflationary background and low short rates.
- The economic picture remains broadly positive for equity markets, although valuations are once more an issue in certain markets and sectors. Historically, equity markets have continued to be supported even in the initial stages of tighter monetary policy.
- Our current stance is overweight equities and bonds versus the manager average. The funds continue to be overweight Asian equities due to more attractive valuations and better economic growth potential and are slightly overweight Japan. The funds have moved from overweight to closer to neutral in European equities. The UK exposure has been moved from underweight to neutral. The funds continue to have overweight sectoral positions in financials and industrials.