Weekly

investment news

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EAGLE STAR

Global Overview

- Most equity markets fell last week as concerns over rising interest rate expectations in the US outweighed good corporate earnings results.
- Further plans by China to cool its economy and geo-political tensions in the Middle East also weighed on market sentiment.
- Three quarters of the US companies that have reported results have beaten expectations. However, positive economic data has led to speculation that interest rates will increase in the coming months. Markets are now pricing in a rise of 0.75% in US interest rates by the end of the year and are once again sensing that eurozone rates will also turn upward around year end.
- New home sales in the US increased by 8.9% in March as homeowners continue to take advantage of low interest rates. In Europe, the IFO survey of German business confidence rose to its highest level in three years. US consumer confidence figures were also strong. US GDP grew by an annualised 4.2% in the first quarter of the year. The figure was below expectations of 5%.
- In commodity markets, oil prices reached a 13-year high. There were market rumours that OPEC may raise its target price for crude, exacerbated by the difficult security situation in Iraq.

Market	Index	Year to Date Return 31/12/2003 to 30/04/2004		1 Week Return 23/04/2004 to 30/04/2004	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-0.4	4.5	-2.9	-4.1
US	NASDAQ	-4.2	0.6	-6.3	-7.5
Europe	FT/S&P Europe Ex. U.K.	3.5	3.5	-2.9	-2.9
Ireland	ISEQ	8.2	8.2	-3.4	-3.4
UK	FTSE 100	0.3	4.7	-1.8	-2.9
Japan	Topix	13.7	16.1	-1.9	-4.2
Hong Kong	Hang Seng	-5.0	-0.8	-3.6	-4.8
Australia	S&P/ASX 200	3.1	3.7	-1.6	-4.3
Bonds	Merrill Lynch Euro over 5 year	2.3	2.3	0.1	0.1

Equities

USA

- The Q1 earnings-reporting season continued with good results from Time Warner, Chevron and Exxon Mobil among others. Overall, corporate results have been strong with the majority of companies delivering better than expected results.
- However, expectations of higher interest rates drove markets lower with technology and basic materials stocks leading the decline.
- Nortel Networks, the Canadian telecoms equipment group, announced that it has fired its chief executive and chief financial officer amid an internal investigation into its accounting practices. The company said it would have to restate past earnings.

Europe

- The major economic news of the week in Europe was the IFO survey of German business confidence. The survey rose unexpectedly and gave a welcome boost to the Eurozone's largest economy.
- The corporate results season continued with positive results from Renault, Lafarge and Saint Gobain. However, disappointing reports from Siemens and Unilever were negative for the market. Siemens, the German conglomerate, saw its stock fall when it announced that it would be harder to achieve its full year earnings targets. Unilever expressed disappointment with sales growth of 1.3% in some of its top brands.
- In the UK, Shell, AstraZeneca and GlaxoSmithkline had results in-line with expectations, while the mining sector performed poorly on interest rates concerns and the possibility of Chinese demand slowing.

Ireland

- Poor performance in global markets and weakness in the banking sector drove the Irish market lower last week. Bank of Scotland Ireland announced that it is preparing to expand its mortgage business as well as offering credit cards and current accounts to Irish customers.
- AIB held its annual meeting on Thursday and predicted that it would record earnings growth for 2004 in line with market forecasts.

Pacific Basin

- Asian markets were weak as concerns mounted that China's attempts to prevent its economy from overheating will lead to a decline in Chinese demand. Measures to slow down investment spending have been announced with five sectors - steel, aluminium, autos, cement and property - being especially targeted. Chinese demand has underpinned the Asian region over the past 12 months.
- The Hang Seng market was weak with Chinese "H" shares, in particular, experiencing significant drops. Expectations of an increase in US interest rates were also negative for the market as the Hong Kong dollar is pegged to the US dollar. News of a fresh outbreak of SARS in China also weighed on the region.
- Japan was also lower on expectations of lower demand from China and concerns that rises in US interest rates will hit exporters there.

Eurozone Bonds

- Positive economic data sent bond prices lower early in the week: the IFO survey of German business sentiment rose to 96.3 in April and consumer confidence figures were better then expected in the US.
- Comments from Jean-Claude Trichet, president of the European Central Bank, in which he expressed no major concerns about the Eurozone's economic recovery, were also negative for bonds.
- However, weakness in equity markets supported bonds as the week progressed and the Merrill Lynch over 5-year government bond index rose 0.1% on the week.

Global Outlook

- The global economy, led by the US, continues to be strong. Recent data from the US and Japan has been supportive; data from the eurozone has been more mixed.
- Recent US inflation data, as well as comments from the Federal Reserve Chairman, Alan Greenspan, regarding the return of pricing power has changed the views of market participants regarding the timing of US interest rate rises.
- Comments from ECB officials in the last few weeks have removed any thoughts of further Eurozone rate cuts.
- Eurozone bonds should continue to be pressurised by weak US bonds.
- At the moment equity markets are navigating between a very supportive earnings picture and concerns over the timing and pace of US interest rate rises.
- Our current stance is slightly overweight equities – having reduced positions towards the end of April - and underweight bonds versus the manager average. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials while remaining underweight in utilities. Financials have been moved from neutral to underweight given their sensitivity to the prospect of rising interest rates, while pharmaceuticals have been increased to slightly overweight. The funds currently have no significant geographical bias.