Weekly
investment news

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EAGLE STAR

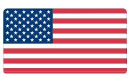
# Weekly investment news

## Global Overview

- Most equity markets declined last week due to some cautious outlooks from big name companies reporting second quarter earnings results.
- Despite good earnings results from technology heavyweights Microsoft and Ebay, market attention turned to the subdued guidance for the second half of the year announced by both companies.
- Alan Greenspan, the Chairman of the Federal Reserve made his testimony to Congress on Tuesday. He played down recent weak economic data and reiterated that the Fed is likely to be able to raise interest rates at a measured pace.
- In currency markets, the US dollar rose against the euro by 2.5% over the week. Traders unwound negative dollar positions after Greenspan's bullish forecasts for the US economy.
- Oil prices remained at high levels due to concerns over supply and geopolitical tensions in the Middle East
- Eurozone bonds slipped marginally on the week due to better economic data from Germany and Mr Greenspan's comments.

| Market | Index | Year to Date Return 31.12.03 to 23.07.04 | | 1 Week Return 16.07.04 to 23.07.04 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S & P 500 | -2.3 | 1.2 | -1.4 | 1.2 |
| US | NASDAQ | -7.7 | -4.4 | -1.8 | 0.7 |
| Europe | FT/S&P Europe Ex. U.K. | 0.1 | 0.1 | -1.0 | -1.0 |
| Ireland | ISEQ | 8.5 | 8.5 | -1.3 | -1.3 |
| UK | FTSE 100 | -3.4 | 3.0 | -0.3 | 0.3 |
| Japan | Topix | 8.8 | 10.0 | -1.4 | 0.0 |
| Hong Kong | Hang Seng | -1.8 | 1.3 | 2.4 | 5.1 |
| Australia | S&P/ASX 200 | 5.6 | 3.3 | -1.3 | -1.7 |
| Bonds | Merrill Lynch Euro over 5 year | 3.2 | 3.2 | -0.2 | -0.2 |

## Equities



### USA

- Guarded outlooks from a number of companies led to declines on US markets last week. Microsoft announced a plan to pay out $75 billion to investors.
- There were positive results from eBay but a weak outlook caused the stock price to fall. Amazon.com released results below market expectations. AT& T stock fell over 5% after it reported an 80% drop in profits. Coca-Cola disappointed investors with worse than expected volume growth.
- However, there were good results from McDonalds's with a 25% increase in profits and its best sales growth in 17 years.

### Europe

- Pharmaceuticals were the best performing sector in Europe last week following good quarterly earning results from a number of companies. Novartis released upbeats earnings and rose 6% on the week.
- Swedish phone company Ericsson, the telecoms equipment manufacturer, also released excellent results.
- The insurance sector had a difficult week following a profits warning from Swiss reinsurer, Converium. Munich Re declined 5.9% on the week.
- In the UK, Abbey National confirmed it was in bid talks with Santander Central Hispano, Spain's biggest bank. The Abbey share price rose 17% on news of the talks.

### Ireland

- The ISEQ fell 1.3% on the week due primarily to a drop of 12% in Elan. The pharmaceutical company was subject to profit taking following no new newsflow on its latest Alzheimer's update at a conference in the US.
- Ryanair also had a difficult week following news that it is in a landing charge dispute with airport operator, BAA.

### Pacific Basin

- The Topix index fell 1.4% last week, global technology concerns negatively impacted on technology and related sectors whilst economically sensitive stocks were also weaker.
- Hong Kong fared better rising 2.4% on optimism that Chinese economic growth is moderating to acceptable levels.

## Eurozone Bonds

- Bonds slipped a little last week following upbeat comments on the US economy from Alan Greenspan, chairman of the US Federal Reserve. A stubbornly high oil price also continues to cause concern due to the effect on inflation levels.
- Eurozone bond yields edged higher following a rise in German investor confidence index but prices continue to be supported by expectations of measured rises in US interest rates and much slower moves in Eurozone rates.

## Global Outlook

- Activity levels in the global economy remain high. The eurozone has continued to be a laggard but the second quarter data is showing some acceleration in activity. Japan is the fastest-growing G7 economy according to first quarter data. The much-watched Chinese economy is slowing from a period of torrid growth.
- The Fed has commenced its well-flagged tightening cycle, beginning with a 0.25% increase to 1.25%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures will be closely watched by both eurozone and US central banks in coming months, although the ECB's official stance is that it has no bias as to the next change in rates.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric. In addition, global growth indicators are now anticipating a slight loss of momentum in the pace of economic expansion.
- Strong profits and earnings' revisions have validated last year's strong price gains; this year's overall performance for global equities has been more muted. Nevertheless, underlying profit strength and lower valuations than last year offer support to equity markets- although the current US Q2 earnings season will give investors a clearer picture.
- Our current stance is overweight equities versus the manager average and marginally underweight in bonds. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials, while remaining relatively neutral in other sectors. As regards geographical bias, the funds are overweight Europe and underweight the UK and the US while the Pacific region has been increased from underweight to slightly overweight.

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