Weekly investment news

Issued on 6th September 2004

EAGLE STAR

Global Overview

- Equity markets were up on the week, as economic indicators remained generally positive.
- Upbeat US jobs data on Friday dispelled fears that the US economy might be stalling and reinforced expectations of further modest rises in US interest rates.
- The news was good for equities but negative for bonds. A positive comment on Eurozone growth prospects from ECB head, Jean-Claude Trichet, also hit eurozone bond prices, even though the ECB kept interest rates on hold at its monthly meeting.
- Technology stocks took a hit from a negative mid-quarter update from Intel, which cut its forecasts for third quarter revenue and profit margins. The NASDAQ Index fell 1%.
- Oil stocks rose slightly following a surprise drop in US inventories. The dollar also strengthened on the back of better US employment numbers.

Market	Index	Year to Date Return 31.12.03 to 03.09.04		1 Week Return 27.08.04 to 03.09.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	0.2	4.3	0.5	0.1
US	NASDAQ	-7.9	-4.1	-1.0	-1.4
Europe	FT/S&P Europe Ex. U.K.	2.5	2.5	1.1	1.1
Ireland	ISEQ	12.9	12.9	1.6	1.6
UK	FTSE 100	1.7	5.4	1.4	0.1
Japan	Topix	7.8	9.0	-1.2	-2.5
Hong Kong	Hang Seng	3.0	6.7	1.0	0.6
Australia	S&P/ASX 200	8.4	3.5	0.5	-1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	4.5	4.5	-0.5	-0.5

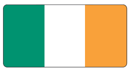
Equities

USA

- It was a relatively quiet week on US markets as many Wall Street traders took holidays to avoid the massive security measures in New York for the Republican Party Convention.
- The big news of the week was Intel's disappointing statement on Thursday, which caused a 7.3% fall in the share price and a general fall off in technology stocks.
- Energy stocks gave the best performance, helped by continued oil price strength and favourable inventory trends. The sector gained 3.5% on the week.

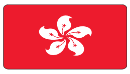
Europe

- Retailers had a good week, helped by strong first half results from the French supermarket giant, Carrefour. Analysts upgraded their recommendations on the stock, helping it rise 7.1% on the week. UK retailer, Sainsbury, gained 4.5% on bid speculation.
- The European technology sector was hit by the fall-out from Intel's negative guidance, with German chipmaker, Infineon, losing 7.6% and STMicroelectronics, its French counterpart, down 5.6%.
- Oils out-performed, helped by broker upgrades of earnings forecasts. BP and Shell rose 1.9% and 3.1%, respectively.



Ireland

- Financial stocks made further gains, Anglo Irish leading the field with a rise of 6.3%. AIB and Bank of Ireland both rose over 2%. Irish Life and Permanent reported favourable interim results, although there was little share price impact.
- CRH also reported earnings in line with recently upwardly revised guidance and announced an increase in its dividend. Again, the share price failed to benefit.
- Glanbia's first half results announcement was favourably received, helping the stock gain 2.9% on the week.



Pacific Basin

- Most Asian equity markets rose last week as stocks shrugged off worries about the high oil price and Intel.
- Hong Kong, Australia and Singapore moved ahead, although the Topix Index was hit by a fall in Japanese telecom stocks after one competitor in the market place slashed prices.
- Malaysian equities posted a strong return after the former Deputy Prime Minister, Anwar Ibrahim, was freed after having politically motivated sodomy charges against him overturned. The ruling is seen as boosting Malaysia's image and could lead to increased investment in the country.

Eurozone Bonds

- Renewed expectations of US interest rate rises followed better economic data from the US and pushed bond prices lower. The negative trend in prices was compounded by a positive economic comment from ECB president, Jean Claude Trichet, following the Bank's monthly meeting on Thursday. He stated that eurozone growth has maintained its momentum and should remain firm in the coming months. The Bank also marginally raised its inflation forecast.

Global Outlook

- Activity levels in the global economy remain high, although there has been some softness in recent US and Japanese data. The eurozone has been a laggard but is now back to its trend growth rate. The much-watched Chinese economy is slowing from a period of torrid growth. A high and sustained oil price should lower growth but increase inflation. The recent decline in the oil price is a positive.
- The Fed has commenced its well-flagged tightening cycle, beginning with two 0.25% increases to 1.5%. 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 loss of momentum in the pace of economic expansion, albeit from high levels.
- 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. Underlying profit strength and lower valuations than last year offer support to equity markets; however, recent earnings' guidance from some US companies has been a bit disappointing. Terrorism worries and the rising price of oil have sapped the demand for equities over the past six weeks, but markets' behaviour has been better in the past two weeks or so helped by recent weakness in the oil price.
- Our current stance is overweight equities versus the manager average and slightly underweight in bonds. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials, and an underweight position in consumer staples. Financials have been moved from neutral to overweight. As regards geographical bias, the funds are overweight Europe and the Pacific region and underweight the UK and the US, while the Pacific region has been increased from underweight to slightly overweight.

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