Weekly investment news

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EAGLE STAR

Global Overview

- Most equity markets advanced last week on the back of a 6% decline in the oil price. At the start of the week, oil prices hit record highs, but this was followed by a rapid fall as US commercial crude inventories increased above expectations.
- Commodity prices in general came under pressure as the People's Bank of China raised interest rates by 0.3%. China is the world's biggest user of many metals and concerns that the move on interest rates would slow the region's exceptional growth rate caused significant volatility in prices.
- The fall-off in oil and metals prices hit resources stocks, which saw heavy price falls despite record quarterly earnings' reports.
- This was balanced in many markets by a sharp recovery in insurance stocks on news that the New York attorney-general, Eliot Spitzer, would not pursue criminal charges against insurance broker, Marsh & McLennan, following the resignation of its chairman and chief executive.
- US economic indicators were generally positive. While Q3 GDP growth at 3.7% was lower than expected, durable goods orders for September were higher than expected. The Chicago purchasing managers' survey for October also significantly beat expectations, as did the University of Michigan index of consumer confidence.
- Eurozone bond prices were flat on the week despite the negative bond impact of lower oil prices.
- The US dollar was weak against most currencies, falling by 0.7%, and close to the weakest level of the year. The euro gained 1% against the dollar, closing at 1.2760.

Market	Index	Year to Date Return 31.12.03 to 29.10.04		1 Week Return 22.10.04 to 29.10.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	1.6	0.1	3.1	2.1
US	NASDAQ	-1.4	-2.9	3.1	2.1
Europe	FT/S&P Europe Ex. U.K.	4.4	4.4	0.4	0.4
Ireland	ISEQ	15.5	15.5	0.4	0.4
UK	FTSE 100	3.3	4.7	0.2	-0.4
Japan	Topix	4.0	3.9	-0.5	-0.2
Hong Kong	Hang Seng	3.8	2.0	0.3	-0.7
Australia	S&P/ASX 200	14.5	11.8	1.9	1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	7.6	7.6	0.0	0.0

Equities

USA

- The S&P 500 Index bounced from an 11 month low at the start of the week to register a gain of 3.1% as oil prices tumbled and the trade-weighted value of the dollar declined.
- Financials registered the best returns, helped by a recovery from oversold levels in insurance stocks following Eliot Spitzer's announcement. Marsh & McLennan regained 3%, while the giant American International Group advanced 11%.
- Oil stocks moved out of favour, despite reports from ExxonMobil and Amerada Hess of sharply higher profits. Mining stocks also weakened on prospects that tighter Chinese monetary policy could slow world economic growth.

Europe

- The Anglo-Dutch oil giant Shell announced a corporate re-structuring which will involve a full merger of the Dutch and British holding companies. The company's primary share market listing will be in London, though its group headquarters will remain in the Hague. Its weighting in the FTSE 100 Index is estimated to more than double from its existing 3.5% after the re-organisation. The company also announced strong third quarter results, although a further restatement of its reserves was a concern for investors.
- Third quarter results announced by Alcatel, France Telecom, Portuguese Telecom and Merck were above expectations and each stock moved higher on the week.
- The insurance sector was helped by the New York attorney-general's announcement with strong recoveries recorded by Munich Re (+3.9%) and Converium (+8.2%), the latter also gaining from an analyst upgrade.

Ireland

- Elan announced Q3 results which beat analysts' expectations, albeit with widening losses. The company signalled that it expects to return to profit in 2006, helped by sales of its painkiller, Priat, and MS treatment, Antegren. The shares rose 1.2% on the week.
- Ryanair advanced over 9% as the airline sector in general was boosted by the fall in oil prices. The company announced that it has offered to set aside €4m demanded by the Belgian authorities, pending the outcome of its appeal against the European Commission's decision dis-allowing its deal with Charleroi Airport.

Pacific Basin

- Major Asian equity indices posted mixed returns. While a drop in the oil price gave a boost to some sectors, such as airlines, the surprise interest rate rise in China depressed some industries. The increase, announced in conjunction with the lifting of a cap on lending rates, is aimed at slowing down China's economy and comes after a series of administrative measures have already been implemented.
- The sectors which have benefited most from China's booming economy, such as mining companies, fared worst.
- The Thai equity market fell almost 5% over the week when around 80 protesters were killed after suffocating in overcrowded military trucks. This was the latest in a series of events in Thailand's Muslim-dominated southern provinces.

Eurozone Bonds

- Eurozone bond prices extended their gains in the early part of the week as oil prices reached new highs, raising expectations of economic slowdown, and the euro continued its rise against the dollar, modifying the impact of higher oil prices.
- The subsequent tumble in oil prices triggered some profit-taking and yields rose, leaving the euro government over 5 year index unchanged over the week. This was an out-performance relative to US treasuries, which registered small price declines, reflecting the more robust state of the US economy relative to Europe.

Global Outlook

- Activity levels in the global economy remain high, although leading indicators foresee a slowing in the pace of global expansion. The high oil price is a "growth tax" for consuming nations but also boosts inflation, posing an undoubted dilemma for policymakers in the major economies.
- The Fed has raised rates from 1% to 1.75% this year and has promised more increases at a "measured pace". Employment growth is seen as the key test of the US economy's strength. This has been modest in past months and may temper the Fed somewhat. The latest employment data will be published at the end of this week, ahead of the Fed's rate decision next week. In the eurozone the ECB remains slightly less upbeat on growth prospects than it had been, but is still in "wait and see" mode regarding interest rates.
- Bond markets have taken some comfort from the stance of the Fed and the ECB, well-behaved inflation data and a sense that global growth momentum has peaked.
- Strong corporate profits have endorsed last year's equity market performance. This year markets have been far more subdued although the support of more favourable valuations in the non-US markets is seen in these markets' ongoing out-performance of the US. A decisive outcome to the US presidential election is more likely to be viewed positively by equity markets. Meanwhile, a steadying of growth sentiment and a more stable/falling oil price would allow equities to regain recent under-performance versus bonds.
- Our current stance is overweight equities versus the manager average and neutral bonds. Sector-wise the funds are overweight basic industries and financials, while underweight some of the more defensive sectors, such as consumer staples. Resources have been lowered to neutral from overweight. In geographical terms, the funds continue to be underweight the US, are neutral in the UK, the Pacific Region and Japan and overweight in Europe.