Weekly investment news

EAGLE STAR

Issued on 13th December 2004

Global Overview

- Equity markets had a quiet week as trading activity slowed in the run up to the end of the year.
- US economic indicators were fairly neutral. Initial jobless claims were higher than the previous week at 357,000, relative to an expected decline to 335,000. Continuing claims were also higher. However, the University of Michigan index of consumer confidence in November rose to 95.7 from 92.8 the previous month, confirming continued strength in the economy.
- Oil prices fell by 5% to $41 per barrel despite an agreement by OPEC to enforce output quotas, which would cut the supply of oil to world markets by 1million barrels per day.
- The dollar halted its slide and regained some of the previous weeks' losses as traders took profits ahead of the year end. It rose 1.6% against the euro to $1.32 and 3.4% against the yen.
- Eurozone bond prices advanced further in response to buying interest from Asian central banks and concerns that OPEC quotas would limit further declines in the price of oil.

Market	Index	Year to Date Return 31.12.03 to 13.12.04		1 Week Return 03.12.04 to 10.12.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	6.8	1.5	-0.3	1.1
US	NASDAQ	6.2	0.9	-0.9	0.5
Europe	FT/S&P Europe Ex. U.K.	8.5	8.5	-0.3	-0.3
Ireland	ISEQ	24.2	24.2	0.1	0.1
UK	FTSE 100	4.9	7.0	-1.1	-1.0
Japan	Topix	3.8	0.6	-2.4	-3.9
Hong Kong	Hang Seng	10.5	4.8	-2.2	-0.9
Australia	S&P/ASX 200	18.1	12.1	-1.0	-3.1
Bonds	Merrill Lynch Euro over 5 year Govt.	11.2	11.2	1.4	1.4

Equities

USA

- Consumer staples were boosted by a restructuring announcement by Colgate-Palmolive, which involves 4,400 world-wide job cuts, closure of a third of its factories world-wide and higher spending on advertising and product development. The share price rose over 8% on the announcement.
- General Electric, which is the world's largest company by market capitalisation, announced a share buy-back programme and an increase in its dividend.
- The strength of the US housing market was underlined by an announcement by Toll Bros., the largest US builder of luxury homes, of a 93% rise in fourth quarter earnings. Toll's share price is up 53% so far this year.

Europe

- The Finnish government announced plans to sell its €1.35 billion holding in telecoms company, TeliaSonera, as part of a debt reduction measure. Telia shares fell 6.4% on the week.
- In the technology sector, chip-maker Infineon announced plans to invest €1 billion in a new factory in Malaysia.
- Utility company Centrica, which owns British Gas and is the UK's largest supplier of household energy, forecast double digit growth in earnings and operating profits this year, despite a loss of almost 1 million customers following a series of price rises. However, it failed to meet its margin target and the shares fell 8% on the day.

Ireland

- Food company Greencore put in the best performance of the week with a rise of 10% following a take-over approach to Geest by a Scandanavian company. Geest is a competitor of Greencore's.
- AIB issued a trading statement on Wednesday, in line with expectations, which forecast a rise of 5.9% in full-year earnings per share, helped by loan growth in Ireland and the UK and an improvement in its Polish operations.
- Elan added a further 6.7% on positive expectations from its MS drug, Tysabri (Antegren renamed post FDA approval), following the pricing announcement of the drug during the previous week.

Pacific Basin

- Asian equity indices fell back last week following poor employment data in the US.
- Technology stocks, and chipmakers in particular, were negatively impacted by a number of US companies reducing their forecasts.
- Weak economic reports in Japan pressured domestic indices.
- There was, however, some notable corporate activity, most significantly the purchase of IBM's PC business by Lenovo, China's largest PC manufacturer. Australian company, Foodland Associated, jumped after being the subject of a bid from rival, Metcash Trading.

Eurozone Bonds

- Eurozone bonds had another good week, the Merrill Lynch over 5 year index rising 1.4%, bringing the year to date rise above 11%.
- Bond prices have moved steadily upwards this year, propelled by a combination of weaker than expected eurozone economic growth, stable interest rates, well-behaved inflation and a strengthening currency.

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. After last week's sharp fall oil is 22% off its peak price this year but is still a third higher than last year's average.
- The Fed has raised rates from 1% to 2% this year and has promised more increases at a "measured pace". Employment growth has been weaker than previous expansions, leading the Fed to be cautious. Nonetheless investors still expect a further 0.25% increase at this week's Fed meeting. As for the ECB, for now it seems that a strong euro will offset concerns over inflation allowing rates to be kept on hold at 2%.
- Equity gains this year have been more modest as profits' momentum seems to have peaked. The oil price has been a negative factor but recent sharp falls will help short-term sentiment. Strong liquidity conditions have also helped equity markets to remain in cyclical uptrends. Seasonal factors should be a support in and around year end.
- 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. Lower eurozone growth prospects and potential for further dollar weakness act as support for eurozone bonds versus their US equivalents.
- Our current stance is overweight equities and bonds versus the manager average. Sector-wise the funds are overweight basic industries and financials, while underweight some of the more defensive sectors, such as consumer staples. Resources and general industrials are neutral from prior overweight positions. In geographical terms, the funds continue to be overweight Europe, and to a lesser extent the Pacific. Japan and the UK remain neutral and the US underweight.