Weekly investment news

EAGLE STAR

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Global Overview

- Equity markets advanced last week on the back of strong economic data and the announcement of several major mergers and acquisitions in the U.S.
- Initial unemployment claims in the U.S. were lower than expected and the Empire survey of manufacturing activity was significantly stronger than expected.
- The Federal Reserve, as anticipated, increased interest rates by quarter of a percent, to 2.25%.
- In Europe, the IFO survey of business confidence in Germany was higher than expected and strong UK retail sales data indicated a buoyant economy.
- Oil prices moved up 10% to $45.80 per barrel on news that U.S. heating oil reserves had fallen.

Market	Index	Year to Date Return 31.12.03 to 17.12.04		1 Week Return 10.12.04 to 17.12.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	7.4	1.5	0.5	0.0
US	NASDAQ	6.6	0.7	0.3	-0.2
Europe	FT/S&P Europe Ex. U.K.	8.4	8.4	0.0	0.0
Ireland	ISEQ	25.5	25.5	1.0	1.0
UK	FTSE 100	4.9	8.0	0.1	0.9
Japan	Topix	6.5	3.8	2.5	3.2
Hong Kong	Hang Seng	11.3	4.9	0.7	0.1
Australia	S&P/ASX 200	20.9	15.7	2.3	3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	11.3	11.3	0.1	0.1

Equities

USA

- The biggest corporate merger of many announced in the US last week was mobile telecoms operator, Sprint's $35 billion agreed acquisition of rival, Nextel. The deal is the third largest acquisition announced in the US this year.
- In the technology sector, Peoplesoft accepted an enhanced $10.3 billion take-over offer from Oracle. The combination will create the world's second largest provider of business applications software, after Germany's SAP. The Oracle share price jumped 10% on the announcement.
- Also in the technology sector, Symantec, which is the world's largest maker of anti-virus programmes, agreed to buy Veritas Software, which makes data storage products, for $13.5 billion.
- Healthcare giant, Johnson and Johnson, announced an agreed purchase of Guidant Corp., which makes electrical cardiac care devices, for $25bn. The news was well received and pushed J & J shares ahead 5.5% in a week which saw further bad news for the pharmaceutical industry on product side effects, with a statement from Pfizer that its Celebrex pain killer more than doubled the risk of heart attacks.

Europe

- The biggest European corporate news on the week was a bid by Deutsche Boerse, which runs the German stock exchange, to buy the London Stock Exchange for £1.3bn, which caused LSE to surge 29%.
- Pharmaceuticals in Europe were hit by news that Astra Zeneca's Iressa lung cancer treatment failed to extend patients' lives. AstraZeneca shares fell 10% on the week.
- In the resources sector, oil exploration company, Cairn Energy, fell 18% on news that royalties to the Indian government on its explorations in Rajasthan would be higher than expected.

Ireland

- Acquisition activity also boosted the Dublin exchange with the purchase of French baking group Hubert for €105m by Irish food group, IAWS, which owns the Cuisine de France brand. IAWS shares rose 6% on the week.
- Irish Life & Permanent issued an in-line trading statement, which pointed to strong growth in new business volumes and anticipated profit growth in excess of 10% for the year.

Pacific Basin

- Asian equities had a strong week. Despite another rise in US interest rates (matched by Thailand), markets took their lead from positive economic data such as buoyant Chinese and US retail sales.
- Although Japan's Tankan –a major survey of businesses – fell, it was in line with expectations.
- The wave of corporate activity also boosted markets. National Australia Bank sold its two Irish units to Danish bank Danske for $1.9bn.
- Hong Kong's mood was somewhat muted due to the postponement of the listing of Asia's largest real estate trust due to legal challenges.

Eurozone Bonds

- Year-end profit taking after an extended period of price advances kept a lid on further advances in eurozone bond prices.
- Investors were cheered by the German government's announcement that its issuance of debt next year would be lower than 2004, but this was counter-balanced by the better than expected Ifo business climate survey, and bond prices remained flat on the week.

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. Including last week's 10% rise, the oil price is a third higher than last year's average.
- This year, the Fed has raised rates from an 'emergency' 1% level to 2.25%. It has promised further increases at a "measured pace" and these will depend on inflation and employment developments over coming months. The ECB seems set to leave rates on hold for longer, given the impact of the strong euro on eurozone growth and inflation.
- Equity gains this year have been more modest as profits' momentum seems to have peaked, albeit from very high levels. The oil price has been a negative factor but strong liquidity conditions have helped equity markets to remain in cyclical uptrends. Seasonal factors should be a support in-and- around year end.
- Eurozone bonds have performed well because underlying inflation has been well behaved and growth in the region has been less strong over the course of the year. Continued dollar weakness and euro strength could see further out-performance of eurozone over US bonds.
- Currently the funds are overweight equities versus the manager average. Bond positions have been lowered from overweight to close to neutral. 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 at, or close to, neutral. In geographical terms, the funds continue to be neutral the UK and Japan while overweight the Pacific Basin. A switch from Europe to the US has reduced the extent of both the European overweight and the US underweight positions.