



Global Overview

- Equity markets were mixed last week with the U.S. underperforming the rest of the world due to the release of hawkish minutes from the last Federal Reserve interest rate meeting. This led to an increase in interest rate expectations in the U.S.
- The Fed statement noted concerns about inflation, slower productivity growth and higher labour costs. Later in the week, the widely watched U.S. employment report for December was in line with expectations.
- The dollar staged a rebound on expectations that the Fed would continue to raise interest rates and ended the week at 1.31 against the euro.
- Oil prices rose above \$45 per barrel on concerns at lower inventory levels and possible OPEC production cuts.

Market	Index	% Return 31.12.04 to 07.01.05	
		Local Currency %	Euro %
US	S & P 500	-2.1	1.8
US	NASDAQ	-4.0	-0.1
Europe	FT/S&P Europe Ex. U.K.	1.0	1.0
Ireland	ISEQ	2.8	2.8
UK	FTSE 100	0.8	2.2
Japan	Topix	-0.3	1.1
Hong Kong	Hang Seng	-4.6	-1.0
Australia	S&P/ASX 200	0.3	0.7
Bonds	Merrill Lynch Euro over 5 year Govt.	0.8	0.8

Equities



USA

- American equity markets declined last week largely due to higher interest rate expectations following the release of the Fed minutes. The 5% rise in the oil price was also a negative factor.
- Sectorwise, consumer staples outperformed and energy stocks underperformed despite the rise in the oil price.
- Technology stocks performed poorly due to new year profit taking. Internet retailer, Amazon, fell 5% on Tuesday on concerns about increased competition. However, IT consulting firm, Accenture, performed well later in the week on releasing better than expected quarterly results.
- Insurance giant, AIG, increased its dividend by 67% and the stock was up 3% on the week.



Europe

- European stocks out-performed the US, the Europe ex UK Index rising 1% helped by strong performances in the autos and financials sectors.
- Car manufacturers (and exporters in general) were helped by the euro's fall to a six week low against the dollar and by industry signs of a pick up in demand. Volkswagen announced that it would achieve its profit target for 2004, despite a fall in sales to China, and the stock rose almost 8%. Peugeot Citroen reported better than expected 2004 sales and rose over 3%.



Europe

- Financials were helped by continued bid speculation, notably a rumour that Royal Bank of Scotland was considering a bid for ABN Amro, which drove the latter up 6%.
- In the UK, retailers had a difficult week as Next, Marks & Spencer and Woolworths issued disappointing Christmas trading statements.



Ireland

- Star performers on the Irish market were builders merchants and DIY groups, Grafton and Heiton, which jumped 7.5% and 10% respectively on news that their proposed merger has been approved by the Competition Authority.
- CRH issued a trading update which confirmed strong 2004 profits growth, anticipating that profits would exceed €1bn. for the first time. This is despite a slowdown in profit growth momentum in the second half of the year due to higher input costs and a weaker US dollar. The statement was in line with expectations and the share price was unchanged on the week.



Pacific Basin

- Asian equities had a mixed start to the year as optimism regarding the economic outlook was offset by worries over the magnitude of future US interest rate increases.
- Chinese shares fell after the central bank announced a tightened money supply target and Korean shares dropped as a survey of manufacturing confidence fell to its lowest in four years.
- Japanese shipping companies performed strongly after the government announced large cuts in port charges.

Eurozone Bonds

- Eurozone bond prices were surprisingly resilient in a week of rising US interest rate expectations and a declining euro. The Merrill Lynch euro government over 5 year index rose 0.8% largely due to re-positioning by traders who had taken profits before the end of the year. US treasury prices were marked lower on the week.

Global Outlook

- Activity in the global economy remains reasonably strong, although the forward indicators suggest some slowdown over coming months. The effects of last year's one-third rise in oil prices seem limited to date, but policymakers will remain vigilant during 2005.
- The Federal Reserve raised rates from the emergency 1% level last year, ending the period at 2.25%. For 2005 it has promised further 'measured pace' increases, which have largely been anticipated by interest rate markets
- In the eurozone, the ECB has kept rates flat at 2% for a prolonged spell now, notwithstanding currency strength and subdued to weaker economic data. Investors and the ECB still anticipate an upward bias to rates during the year but this will be subject to improvements in the economic numbers. Eurozone bonds performed very strongly in 2004, but the general investor consensus is much more cautious this year. Nonetheless, continued low rates and well-behaved inflation could continue to underpin bonds in 2005.
- Surveys of equity investors suggest that they have already moderated their expectations for growth in 2005, although they remain broadly positive on the overall outlook for equity markets. A strong fourth quarter means that total returns for last year were quite healthy. Corporate profit growth globally for 2005 is expected to be in the order of 10% and this is likely to underpin equity markets.
- Currently, the funds are overweight bonds and equities versus the manager average. Sector-wise the funds are overweight basic industries, resources and financials, while underweight some of the more defensive sectors, such as healthcare. In geographical terms, the funds continue to be neutral the UK and Japan while overweight the Pacific Basin and Europe; the latter having been increased at the expense of a larger US underweight position.



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