Weekly
investment news

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EAGLE STAR

Global Overview

- A surprise move towards an early general election in Germany and the countdown to the French referendum on the EU Constitution on Saturday kept investor focus on Europe rather than the US last week.
- The euro hit a seven-month low against the dollar on Thursday with the French expected to vote against the constitution, followed by a similar outcome in the Netherlands on Wednesday.
- On the economic front, both the Zew survey of investor sentiment and the Ifo business confidence survey in Germany showed weakness, the Ifo falling to its lowest level for nearly two years.
- In the US, the figure for first quarter GDP was revised upwards from 3.1% to 3.5%.
- The oil price edged above $50 per barrel again this week, gaining 5% on the week.

Market	Index	Year to Date Return 31.12.04 to 27.05.05		1 Week Return 20.05.05 to 27.05.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.1	6.5	0.8	0.5
US	NASDAQ	-4.6	2.8	1.4	1.2
Europe	FT/S&P Europe Ex. U.K.	5.5	5.5	1.1	1.1
Ireland	ISEQ	0.7	0.7	1.4	1.4
UK	FTSE 100	3.6	6.2	0.3	-0.1
Japan	Topix	-1.5	0.8	0.2	0.3
Hong Kong	Hang Seng	-3.6	3.8	0.0	-0.1
Australia	S&P/ASX 200	1.6	6.7	1.9	2.7
Bonds	Merrill Lynch Euro over 5 year Govt.	4.7	4.7	0.2	0.2

Equities

USA

- Equity markets in the US rose slightly over the week, with economic and takeover news to the fore, with the corporate earnings season all but over.
- News that Intel and Apple were in talks to use Intel chips in Apple computers sent both stocks higher on the week. Intel rose 4%, while Apple rose 8%, on the expectation that Apple computers would fall in price as a result of the deal, making them more competitive.
- Pfizer shares fell 1% on the week, following reports that Viagra, its blockbuster impotence drug, may cause blindness.
- The rise in the oil price on the week helped oil companies, Exxon Mobil rising 5%. Meanwhile, AIG, the top US insurer, added 5% on the week on news that Eliot Spitzer, the New York State Attorney General, had launched a suit against the company and two former executives.

Europe

- The German and French markets hit their highest levels for nearly three years, helped by the surprise decision of German Chancellor Schroder to call an early general election. This raised hopes that the pace of economic and structural reform might accelerate.

Europe (continued)

- Reports that Italy's second-biggest bank by assets, Unicredito, was planning a bid for HVB Group, Germany's number two lender, raised a stir on markets. The chief attraction was said to be HVB's eastern European division, run by Bank Austria. Shares in HVB and Bank Austria rose on the week, while Unicredito stock fell 7%.
- Vodafone (8% of FTSE 100) stock fell 5% on Tuesday as it announced that increased competition in the UK and Japan could erode margins. The fall came despite a doubling of the dividend and a large share buy-back.
- Scottish Power rose nearly 7% on the week as it announced the sale of PacifiCorp to MidAmerican, a company controlled by Warren Buffett, returning $4.5 billion to shareholders.

Ireland

- The ISEQ index increased by 1.4% with strong returns from Iona Technologies, Kingspan and Greencore.
- Bank of Ireland announced that it is to sell its Bristol & West branch network to the Brittania Building Society for £150 million sterling.

Pacific Basin

- A report that the US economy continued to grow further supported Asian exporters last week. The resources rich Australian market benefited from rising commodity prices.
- Interest rate concerns meant that Hong Kong stocks were lack-lustre.

Eurozone Bonds

- Eurozone bonds were marginally up on the week. Weak economic news out of Germany, in particular, sent yields lower in mid-week before some profit taking towards the end of the week levelled things out.
- The news in question was the Ifo business climate index, which fell to 92.9 in May from 93.3 in April, its fourth consecutive monthly decline. This followed hard on the Zew index of investor sentiment which dropped to a six-month low the day before.

Global Outlook

- The global economy has continued to slow from last year's robust pace, with many of the recent data disappointing expectations. Policymakers remain vigilant regarding the effects of high oil prices on growth and inflation.
- We have said for some time that inflation data will remain central to the Fed's policy actions over coming months. Although US rate expectations have eased back in recent weeks, markets still expect the Fed to raise its rates by a further 0.75% to 3.75% by year end.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Recent weak data have tempered its earlier, more hawkish rhetoric. Long term eurozone interest rates are at 60 year lows after the recent strong performance from eurozone bond markets. Bonds are therefore slightly stretched at the moment but remain supported by low inflation and low short rates.
- Equity market returns have been quite varied so far this year; with the European markets stronger than most. The US market remains the most sluggish of the large markets and technology has been among the weakest sectors. For 2005, global profit growth is still expected to be around 10%, although investors are now attaching less certainty to that prediction.
- Currently, the funds are close to neutral in bonds and neutral to slightly underweight equities versus the manager average. Sector-wise the funds' exposure to cyclical sectors such as basic industries and resources has been reduced while some defensive sectors have been increased. In geographical terms, the funds continue to be neutral the UK and Japan and close to neutral in the Pacific Basin, underweight the US, while overweight Europe.

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