Weekly

# investment news

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EAGLE STAR

## Global Overview

- It was a busy week on markets with currency developments, corporate earnings reports and comments from Alan Greenspan, Chairman of the Federal Reserve, dominating the headlines.
- Greenspan gave an optimistic assessment of the US economy in his congressional testimony and confirmed that US interest rates would continue to rise to keep inflation in check.
- China announced that it would replace its peg against the US dollar with a basket of currencies. This will result in an upward revaluation of the renminbi by 2.1%. This move will make US exporters slightly more competitive relative to their Asian counterparts.
- Oil prices weakened due to better than expected inventory data from the US and news that Hurricane Emily had eased in the Gulf of Mexico, avoiding any further damage to US oil refineries.
- Economic news included upbeat US retail sales, employment and housing data. There were better than expected consumer confidence numbers from Germany. Minutes from the last UK monetary policy committee meeting underpinned speculation of an upcoming UK interest rate cut.

| Market | Index | Year to Date Return 31.12.04 to 22.07.05 | | 1 Week Return 15.07.05 to 22.07.05 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S & P 500 | 1.8 | 14.4 | 0.5 | 0.4 |
| US | NASDAQ | 0.2 | 12.6 | 1.1 | 1.0 |
| Europe | FT/S&P Europe Ex. U.K. | 12.4 | 12.4 | 0.7 | 0.7 |
| Ireland | ISEQ | 9.7 | 9.7 | 3.0 | 3.0 |
| UK | FTSE 100 | 8.9 | 10.8 | 0.2 | -0.9 |
| Japan | Topix | 3.2 | 6.7 | -0.6 | 0.1 |
| Hong Kong | Hang Seng | 3.9 | 16.7 | 2.0 | 1.9 |
| Australia | S&P/ASX 200 | 7.9 | 18.4 | 1.8 | 3.7 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 6.2 | 6.2 | 0.6 | 0.6 |

## Equities

### USA

- The second quarter earnings season in the US was in full swing last week with announcements from many market heavyweights.
- EBay had a good week on the back of positive results. Google and Microsoft both announced better than expected earnings. However, both stocks declined as investors had hoped for higher margins.
- There were better than expected earnings from biotech company Amgen and oil service firms Halliburton, but there were worse than expected earnings and/or guidance from Intel, Yahoo, General Motors and Citigroup. Citigroup stock fell 5% as a result.
- Energy stocks continued to perform well on the back of high oil prices.

### Europe

- European markets continued to scale new three-year highs, supported by strength in steel and mining stocks.

### Europe

- In the UK, a second series of attacks on London's transport system had little lasting impact on markets.
- Nokia was the big laggard due to disappointing results which detailed lower profit margins. A number of brokers downgraded the stock and it fell 13% over the week.
- French food group, Danone, had another strong week rising 11% on the back of speculation that PepsiCo of the US are about to make a takeover bid.

### Ireland

- On the home front the ISEQ index returned 3%, with Anglo Irish Bank benefiting from a broker upgrade. The stock rose 9% on the week.
- CRH also benefited from broker upgrades.

### Pacific Basin

- The revaluation of the Chinese currency against the dollar and its move to a new trading system against a basket of currencies dominated events in Asia last week. Other Asian currencies gained in the wake of the move and stocks that depend on domestic demand, such as property companies, moved higher.
- Companies that import raw materials and those with foreign debt also rose to reflect the benefits of a stronger exchange rate.
- Conversely, exporters such as car manufacturers fell due to the expected erosion in the value of their overseas sales.

## Eurozone Bonds

- Positive comments from Alan Greenspan on the US economy and China's revaluation of the renminbi caused some initial negative reaction on US bond markets. However, the impact was brief and US bonds finished the week much as they had started.
- Eurozone bonds gained due to renewed terrorism concerns and from speculation that Asian demand for US bonds would wane due to the revaluation and demand for Eurozone bonds would increase as a result.

## Global Outlook

- Policymakers remain vigilant regarding the effects of high oil prices on growth and inflation. So far the negative impacts have been limited but the rise in the oil price to around $60 will only heighten their sensitivity.
- We have said for some time that inflation data will remain central to the Fed's policy actions over coming months. Fed guidance-repeated last week- is that rates will continue to rise at a measured pace, with markets anticipating rates to rise a further 0.75% to around 4% by year end.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Long term eurozone interest rates are at 60 year lows after the recent strong performance from eurozone bond markets. Bonds are expensive on a historical basis but remain supported by sluggish growth, low inflation and pension fund liability matching.
- For 2005, global profit growth is still expected to be in the low double digits. Equities remain supported by strong corporate earnings, healthy balance sheets and favourable valuations relative to bonds and cash. Upside may be constrained by headwinds of rising US rates and the impact of high oil prices on the global economy.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sector-wise the funds have shifted to a more neutral bias. 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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