Weekly
investment news
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EAGLE STAR

Global Overview

- Global equity markets produced a mixed bag of returns last week, with Japan leading the way in the wake of the clear-cut victory for PM Koizumi in the general election.
- In the US, growing certainty as the week wore on that the Federal Reserve would raise interest rates again on Tuesday 20th, by 0.25%, put a brake on the market. In the initial aftermath of Hurricane Katrina, it had been suggested that the Fed might take a break this month.
- There was a constant stream of economic releases in the US. Among the highlights were a rise of 71,000 in the initial jobless claims, a fall of 2.1% in retail sales in August (the biggest monthly fall in nearly four years) and the narrowing of the US trade deficit by 2.6% in August to $57.9 billion.
- For once, oil was not the biggest story in the commodities market, as gold hit a 17-year high. However, oil remained well above $60 per barrel.
- On currency markets, the US dollar gained 1.5% on the euro on the week as the market fretted about a possibly indecisive outcome to the German general election on Sunday (an outcome which appears to have been delivered). The dollar also gained more than 2% against sterling.

Market	Index	Year to Date Return 31.12.04 to 16.09.05		1 Week Return 09.09.05 to 16.09.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	2.1	13.3	-0.3	1.3
US	NASDAQ	-0.7	10.2	-0.7	0.9
Europe	FT/S&P Europe Ex. U.K.	16.3	16.3	0.5	0.5
Ireland	ISEQ	7.6	7.6	-2.0	-2.0
UK	FTSE 100	12.3	17.3	0.9	0.6
Japan	Topix	15.6	17.9	2.7	2.9
Hong Kong	Hang Seng	5.3	17.0	-1.2	0.4
Australia	S&P/ASX 200	12.4	22.1	1.9	2.6
Bonds	Merrill Lynch Euro over 5 year Govt.	7.7	7.7	-0.8	-0.8

Equities

USA

- The US market indices drifted downward, despite the announcement of a number of takeover deals. The most high profile of these was Ebay's $2.6 billion takeover of internet telephony group Skype.
- Lehman, the US investment bank, reported a 74% increase in quarterly profits and was also upbeat about the rest of the year, raising the bar for other banks whose results are to follow.
- After the closing bell on Wednesday both Delta Air Lines and Northwest Airlines filed for bankruptcy, leaving their shares down 25% and 75% respectively.

Europe

- With the German market suffering from a bout of nerves in the lead up to Sunday's general election, it was left to other markets to push the Index ahead a little on the week.
- Nokia, the Finnish mobile phone manufacturer, rose over 3% after it raised its third quarter sales and profits forecasts on strengthening demand.
- In the UK, resource stocks were to the fore as the price of gold attained a 17-year high. Among the week's best performers were Rio Tinto (+10%) and Anglo American (+7%).
- Also in the UK, two major retailers reported poor results on Thursday, after official statistics showed that retail sales stagnated in August. Both Kingfisher, the owner of the B&Q DIY chain, and Next reported worse-than-expected sales and profits.

Ireland

- On the home front the ISEQ index fell 2%. Grafton was weak in line with the poor results from UK peer Kingfisher, despite the fact that the company's own results were reported in line. DCC was also weak after it warned the market that trading in its IT distribution division had deteriorated significantly from expectations.
- C&C Group benefited from positive UK market share data reported by A.C. Nielsen and ended up over 6% higher on the week.

Pacific Basin

- Asian equities moved higher again last week, adding to recent gains. Japanese equities led the way after the re-election of Koizumi's LDP by a greater-than-expected margin brightened the prospects of progressive economic reforms being implemented.
- Mining stocks gained as analysts upgraded their forecasts for metals demand, due mainly to continuing robust Chinese consumption. Gold miners were particularly strong after the gold price reached its highest level in seventeen years.

Eurozone Bonds

- Eurozone bonds fell nearly 1% on the week, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- The Dutch government announced the delay of pension reform, that many expected would boost appetite for long-dated bonds, by a year, to January 2007. Also, rising uncertainly in the run-up to the German general election on Sunday unsettled the market.

Global Outlook

- The effects of high oil prices on growth and inflation remain centre-stage for policymakers. The negative impacts have been limited to date but persistently higher oil prices of over $60 will heighten this sensitivity.
- Inflation data remain central to the Fed's policy actions. Fears over the impact of Hurricane Katrina have lessened somewhat over the past two weeks; investors are once again thinking that the Fed will raise rates by a further 0.5% to 4% by year end, with 0.25% of this widely expected on Tuesday 20th.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. While bonds are still expensive on an historical basis they remain supported by relatively sluggish eurozone 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 higher 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 a more neutral bias, with a small overweight in basic industries and resources. In geographical terms, the funds are overweight in Europe and the Pacific Basin, slightly overweight in Japan and underweight in the UK and particularly in the US.

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