Weekly
investment news
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EAGLE STAR

Global Overview

- Markets struggled for the third week running as evidence mounted that the US Federal Reserve will continue to raise interest rates in an attempt to stave off inflation. A number of Federal Reserve officials suggested that rates would go beyond 4.5% next year. US interest rates currently stand at 3.75%.
- In Europe, the ECB also sounded a warning note on interest rates. Otmar Issing, the European Central Bank Chief Economist stated," The ECB will raise interest rates if medium-term inflation pressures increase".
- US markets were less affected, supported by strong third quarter earnings, while Asian and European markets under-performed due to profit taking.
- Oil prices ended the week at $59 a barrel, the lowest level since July. Oil prices peaked at $70 a barrel at the end of the August.
- On currency markets the dollar was strong against most currencies with the €/$ moving from 1.2090 to 1.1960.

Market	Index	Year to Date Return 31.12.04 to 21.10.05		1 Week Return 14.10.05 to 21.10.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-2.7	10.3	-0.6	0.5
US	NASDAQ	-4.3	8.5	0.8	1.9
Europe	FT/S&P Europe Ex. U.K.	13.4	13.4	-2.2	-2.2
Ireland	ISEQ	3.1	3.1	-3.8	-3.8
UK	FTSE 100	6.8	11.7	-2.5	-1.6
Japan	Topix	20.5	20.8	-0.9	-1.5
Hong Kong	Hang Seng	1.8	15.7	0.0	1.1
Australia	S&P/ASX 200	7.7	16.7	-1.0	-0.6
Bonds	Merrill Lynch Euro over 5 year Govt.	7.4	7.4	0.6	0.6

Equities

USA

- US markets ended the week little changed despite much volatility due to deteriorating investor sentiment. Investors were torn between possible interest rate increases on the one hand and positive earnings reports on the other.
- Intel delivered lukewarm guidance for future sales. However, this was overshadowed by good earnings growth numbers from other companies. Google, the internet search engine, jumped 15% on the week due to positive third quarter earnings numbers. 3M also announced profits that beat expectations.
- There was disappointing numbers from Caterpillar. The heavy equipment maker warned of higher raw material costs going forward.
- The energy sector was the worst performer as oil prices fell back to below $60 per barrel.

Europe

- European stocks did not escape the gloomy sentiment that pervaded markets last week in spite of generally positive corporate earnings results.
- Pharmaceuticals had a good week as Novartis and Roche reported good results. Technology companies also impressed the market with positive numbers from Philips Electronics and SAP, Europe's biggest business software group.
- It was a difficult week for UK markets with energy stocks leading the decline as oil prices fell back. Minutes of a UK monetary policy committee meeting, which showed that the committee had unanimously voted to leave rates on hold, affected the market. Investors had been hoping for a pre-Christmas rate cut.

Ireland

- The Irish market had a particularly bad week with stocks across the board affected by the disquiet surrounding global equity markets.
- In the long-running Jurys Doyle Hotel saga, property developer Sean Dunne ruled out making a bid for Jury's Doyle group.

Pacific Basin

- Asian markets fell back, driven by concerns that US interest rates would be raised by more than previously anticipated.
- Taiwan was the worst performing market as the technology-heavy index reacted badly to tepid future guidance from US technology giant, Intel.

Eurozone Bonds

- Eurozone bonds rose 0.6% on the week, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- Investors shrugged off hawkish comments on interest rates from central bankers in Europe and the US. Falling equity markets provided support for bond markets as bonds are perceived as less risky by investors.

Global Outlook

- Policymakers remain focused on the growth and inflation effects of high oil prices and how economies are responding to the impacts of higher interest rates in countries like the US and UK.
- For the Federal Reserve, inflation data are central to its policy of gradually raising rates. Investors now expect a further 0.5% increase in rates to 4.25% between now and year end.
- The ECB seems concerned about second-round effects of oil prices on overall inflation but, at the same time, it says these effects are mild and that rates are currently appropriate. Eurozone bonds remain expensive historically but still remain supported by relatively sluggish growth, well-behaved inflation and pension fund liability matching.
- Equity markets are currently correcting after a period of very solid gains. Equities remain supported by a strong earnings' background and favourable valuations relative to bonds and cash; higher US interest rates and oil prices are the constraining factors.
- Currently, the funds are close to neutral in bonds and slightly underweight equities versus the manager average. Sectorwise, the funds are overweight financials while other sector stances are quite small; a previous slight overweight in resources and basics has been cut back with resources now a slight underweight. Geographically the funds remain overweight in Europe and the Pacific Basin, neutral in Japan and underweight the UK and, to a greater extent, the US.

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