Weekly investment news

19th December 2005

EAGLE STAR

Global Overview

- US monetary policy attracted most of the attention on markets last week. The Federal Reserve met on Tuesday and raised rates by 0.25% to 4.25% as expected. However, there was a notable change in tone to the accompanying statement as the reference to rates being "accommodative" was dropped.
- It was a brisk week for economic data. The US trade deficit reached new highs hitting a record $68.9 billion for October, far worse than expected. There was also robust manufacturing data from the US.
- In Europe, the German Ifo survey, recorded business optimism at a new five year high, rising to 99.6, up from 97.8. The survey has fuelled hopes that the German economy may be starting to emerge from the doldrums.
- On currency markets, the US dollar slipped against the euro and the yen due to the widening US trade deficit. The deficit has remained in the background for most of this year as investors focused on the interest rate differential between the US and other markets. However, it is now back on the agenda as monetary tightening in the US is expected to end in 2006. The deficit was behind dollar weakness from 2001 to 2004.
- On commodity markets, gold retreated from 25 year peaks on Monday to finish the week at $505 per ounce. Oil prices hovered around the $59 per barrel level. Opec and the International Energy Agency both revised up their forecasts for 2006 oil demand.

Market	Index	Year to Date Return 31.12.04 to 16.12.05		1 Week Return 09.11.05 to 16.12.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	4.6	18.1	0.6	-0.9
US	NASDAQ	3.5	16.9	-0.2	-1.8
Europe	FT/S&P Europe Ex. U.K.	22.5	22.5	0.5	0.5
Ireland	ISEQ	17.1	17.1	1.5	1.5
UK	FTSE 100	14.9	20.0	0.3	-0.4
Japan	Topix	37.5	37.3	-0.7	1.7
Hong Kong	Hang Seng	5.6	19.6	0.8	-0.7
Australia	S&P/ASX 200	14.7	22.9	1.4	-1.3
Bonds	Merrill Lynch Euro over 5 year Govt.	7.3	7.3	0.9	0.9

Equities

USA

- US markets inched up over the week with the exception of the Nasdaq which came under pressure due to weakness from some major technology players. Apple Computer was down following a broker downgrade while Oracle was down following an announcement of reduced profits.
- Pharmaceutical giant, Pfizer was the star of the week. It soared 10% when it announced a boost to its dividend.
- Altria rallied 7% after a court ruling reversed an earlier ruling that had awarded $10 billion in damages against the group's Philip Morris tobacco company.
- General Motors tumbled 5% after Standard & Poor's warned that a bankruptcy filing may be the only way for the company to get over its difficulties.

Europe

- On European markets, a number of stocks rose due to broker upgrades. Utilities stocks were strong on the week. Eon (+6%) benefited from a price target upgrade from UBS. RWE also gained 4% on the week.
- Philips (+8%), the electrical goods maker, and Siemens (+6%) , the industrial conglomerate , were also the recipients of positive broker comments.

- Celesio, the German drug distributor, had a good week when it forecast double digit growth over the next few years.
- In the UK, Vodafone had a difficult week as the market remained unconvinced about the merits of its acquisition of Telsim.

Ireland

- The Irish market had a strong week boosted by good performances from CRH and FBD. CRH moved ahead on the back of upbeat data from the US building sector. FBD rose 5% to a 52 week high.
- Shares in Fyffes jumped after the company announced that it is to establish a new property company called Bluestone Properties which will be made up of about €200 million in property assets.

Pacific Basin

- The Japanese market succumbed to a bout of profit taking last week. The market wasn't helped by the Bank of Japan's quarterly Tankan survey, which although it showed rising optimism, fell short of expectations.
- The Australian market put in a strong performance helped by an increase in energy stocks. The Hong Kong market rose on the back of a more favorable interest rate outlook in the US.

Eurozone Bonds

- Eurozone bonds rose 0.9% on the week, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- Bond markets were dominated last week by significant changes to the US Federal Reserve Statement. Markets took heart from speculation that the end of the Federal Reserves tightening cycle may be in sight.

Global Outlook

- Global growth continues to be healthy despite high oil prices and interest rate tightening in the US and Asia. Inflation vigilance is high among the major central banks.
- For the Federal Reserve, inflation data is central to its policy of gradually raising rates. Investors now expect US rates to peak at 4.75% in 2006.
- ECB rhetoric since its recent rate hike has continued to confuse the market. Bond markets remain on watch for data that may sway the ECB to further rate increases. In the background is still moderate inflation and pension fund liability matching which should continue to offer support to longer – dated bonds.
- Equity markets remain supported by a strong earnings' background and favourable valuations relative to bonds and cash; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight general industrials while underweight some of the defensive areas like utilities and telecoms. Other sectors are broadly neutral. Geographically the funds are underweight Ireland , the UK and US, overweight Europe and Japan and neutral the Pacific Basin.