Weekly
investment news

22nd May 2006

EAGLE STAR

Global Overview

Turbulent week for equities
Global equity markets suffered losses last week as concerns about rising inflation and slowing economic growth came to the fore.

US inflation increases
Inflation data in the US came in slightly stronger than expected igniting fears that US interest rates will have to rise further.

Sell off on commodity markets
Metals such as copper and gold declined sharply with copper falling over 14% in ten days. Silver hit a three week low falling 20% from its peak. Oil prices finished the week at $69 per barrel.

US dollar strength
The US dollar strengthened against all major currencies, with the €/$ rate falling to 1.27. The dollar gained 1.1% against the euro on the week.

Market	Index	Year to Date Return 31.12.05 to 19.05.06		1 Week Return 12.05.06 to 19.05.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.5	-5.9	-1.9	-0.8
US	NASDAQ	-0.5	-7.7	-2.2	-1.2
Europe	FT/S&P Europe Ex. U.K.	4.9	4.9	-4.6	-4.6
Ireland	ISEQ	2.9	2.9	-2.4	-2.4
UK	FTSE 100	0.7	2.0	-4.3	-4.0
Japan	Topix	-0.7	-2.8	-2.9	-3.1
Hong Kong	Hang Seng	9.7	1.7	-3.5	-2.5
Australia	S&P/ASX 200	7.1	2.6	-4.3	-5.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-4.7	-4.7	0.7	0.7

Equities

USA

US markets

Fears about interest rates and inflation unsettled investors last week leading to declines on both the S&P 500 and the Nasdaq.

Key Movers

Mining stocks – Declining commodity prices led to a dismal week for mining stocks in the US with copper producer Phelps Dodge down 12% and aluminium producer Alcoa down 10%.

Carnival Cruises – The cruise company saw its share price drop 13% after it cut its outlook for 2006.

Retail stocks – Positive earnings from a number of retail giants helped give the retail sector a boost. Sears Holdings rose 15% on the week when the company delivered a 19% gain in quarterly profits.

Europe

Key Movers

Norway – The resource heavy Norway stock market fell 6% due to strong declines in stocks such as Statoil and Norsk Hydro.

Mittal Steel – The stock fell 17% over the week after the steel company raised its offer for Arcelor by a third.

UK market slumps over 4% – In the UK, the FTSE 100 fell a further 4.3% last week hit by sharp declines in energy and resource stocks.

British Airways – The airline company bucked the negative trend when it announced a rise in annual profits. It also delivered the first profit from its short haul business in ten years.

Ireland

Elan – The Irish market put in a better relative performance that its global counterparts due to good performance from Elan which rose over 11% on the week. Rumours regarding a June launch date for its multiple sclerosis drug, Tysabri, helped drive the stock forward.

Ryanair– Ryanair moved marginally ahead on the week which also helped to stem losses on the ISEQ.

Asia Pacific

Australia

Australian markets experienced significant losses last week. The market has a heavy bias towards resource stocks which were heavily hit by falling commodity prices.

Hong Kong

The Hang Seng was also well down due to rising interest rate expectations in the US.

Bonds

Bond prices rise – Bond prices rose last week as investors sought a safe haven environment from tumultuous equity markets. The Merrill Lynch over 5 Year Government Index rising 0.7%.

Global Outlook

- Growth expectations remain at high levels with global GDP now expected to expand by 3.7% in 2006, slightly above last year's figure of 3.6%. Surging commodity prices remain a key focus of the major central banks.
- The Fed recently raised rates to 5% and gave clear signals that it will pause in its rate hike at the next meeting. However, further policy moves beyond that remain dependent on economic data, so investors will be sensitive to any information that could influence the current debate within the Fed.
- Investors expect ECB rates to be raised close to 3.25% by year end with the next move in June; ECB rhetoric continues to be hawkish and the stronger euro/weaker US dollar does not seem to be influencing its thinking so far. Despite moderate inflation in the eurozone, rising short rates and less than expected demand from pension funds has kept bond prices under some pressure.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets or produce the type of corrections we have seen in the past couple of weeks. The gradual ending of super-easy money policies in Japan continues to deserve attention because of its potential negative impact on various asset classes.
- Currently, the funds are neutral to underweight in bonds and close to neutral in equities versus the manager average. Sectorwise, the funds are overweight industrials while underweight some of the defensive areas, like telecoms. Geographically the funds are underweight Ireland and North America, while the UK is closer to neutral. The UK, Europe, Japan and Pacific remain overweight.