Weekly
investment news

19th June 2006

EAGLE STAR

Global Overview

Equity markets volatile
Global equity markets had a rollercoaster ride last week, falling sharply on Monday and Tuesday, due to fears about inflation, before staging a strong recovery in the latter part of the week.

Comments from Ben Bernanke
Comments from the Federal Reserve Chairman, Ben Bernanke, eased nerves on equity markets as he played down the threat of energy prices to inflation and growth.

Japanese recovery
Japanese stocks recovered strongly in the latter half of the week after the Nikkei fell 4.1% on Tuesday, its worst one-day drop in two years.

Commodity markets
Commodities were volatile over the week. Gold suffered its biggest one-day loss in 15 years, falling below €600 an ounce last week. However, the price recovered in the latter part of the week. Oil prices fell to a two-month low, despite the onset of the hurricane season.

Market	Index	Year to Date Return 31.12.05 to 16.06.06		1 Week Return 09.06.06 to 16.06.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	0.3	-6.0	-0.1	0.1
US	NASDAQ	-3.4	-9.5	-0.2	-0.1
Europe	FT/S&P Europe Ex. U.K.	-1.6	-1.6	-1.5	-1.5
Ireland	ISEQ	-0.6	-0.6	0.2	0.2
UK	FTSE 100	-0.4	0.4	-1.0	-0.6
Japan	Topix	-7.0	-10.7	2.4	1.5
Hong Kong	Hang Seng	6.5	-0.3	1.4	1.5
Australia	S&P/ASX 200	4.3	-1.6	0.1	-1.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-4.1	-4.1	0.1	0.1

Equities

USA

Overview
Wall Street fell sharply in the early stages of the week with the Dow Jones Index briefly falling into negative territory for the year-to-date. However, the index rallied in the latter half of the week, bringing it back into positive territory.

Key Movers
Investment Banks – Goldman Sachs and Lehman Brothers, the investment banking stocks, released second quarter earnings last week. Goldman Sachs comfortably beat expectations due to strong trading and investment banking results. However, Lehman Brothers only managed to marginally beat expectations.

Best Buy
Shares in Best Buy, the consumer electronics retailer, rose after it announced a better-than-expected rise in first-quarter profit relative to the same period last year.

Europe

Overview

Like the other major indices, Europe experienced much volatility but finished the week in negative territory.

Key Movers

M&A Activity – Axa, the French insurer, announced a £5.4bn bid for Winterthur, the insurance arm of Credit Suisse. Bayer, the German drugs and chemical company, completed a €17bn deal to acquire Schering.

Mining Stocks – Mining stocks such as BHP Billiton and Rio Tinto were weak on Friday after the Chinese central bank said it would raise its reserve requirements by 0.5% to help slow economic growth.

Ireland

Waterford Wedgwood – Waterford Wedgwood, the ceramics and crystal manufacturer, announced it is to issue shares for the fourth time in less than three years after reporting a disappointing set of results.

Asia Pacific

Overview

Asian markets were volatile, performing well towards the end of the week like most of the other major exchanges.

LG. Philips – LG. Philips, the world's second largest maker of flat screens, slumped after it slashed its earnings forecast.

Bonds

Eurozone bonds were flat on the week with the Merrill Lynch over 5 year index up 0.1%. The main focus in the bond market was once again on the inversion of the US yield curve.

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%. The major central banks are focused on cyclical inflation pressures and strong commodity prices.
- Investors are keenly focused on the Fed meeting at the end of this month to see whether rates will change from the current 5% level. The probabilities assigned to a further hike or a pause in rate moves have jumped around over the past few weeks, as markets try to gauge the impact of new economic data on the debate within the Fed. Investors fully expect a 0.25% increase this month and, most likely, another 0.25% by year end.
- Despite moderate inflation in the eurozone, rising short rates and less than expected demand from pension funds have kept bond prices under pressure so far this year. The ECB raised rates as forecast to 2.75% recently and investors continue to expect two more 0.25% increases over the course of the year.
- 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 during the past few 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 close to neutral in bonds and equities versus the manager average. Sectorwise, positions are currently pretty balanced as well. Geographically the funds are underweight Ireland and Japan, and more neutral in the other regions with the European overweight having been re-deployed into the US.