Weekly

investment news

14th August 2006

EAGLE STAR

Global Overview

Interest rate speculation and terrorist threat unsettles markets

Most equity markets ended the week in negative territory as terrorist activity in the UK combined with interest rate worries led to uneasiness among investors.

US interest rates

The US Federal Reserve left interest rates unchanged at 5.25% last week ending a succession of 17 quarter-point increases that began in June 2004. Speculation is now rife as to whether the move represents the peak of the US interest rate cycle or whether there are further rate hikes in the pipeline. The majority of investors expect one final rate rise before year end.

Rollercoaster week for oil

Oil prices experienced volatility last week hitting almost $77 per barrel on Monday before falling back to just over $74 by the end of the week. News of a pipeline leak led to the closure of the largest oilfield in North America and pushed prices up early in the week. However, oil prices fell sharply on Thursday, as it emerged that UK police had foiled an alleged terrorist plot to blow up transatlantic aircraft mid-flight. Oil prices recovered some ground on Friday as fears regarding lower air travel demand receded.

Currencies

The US dollar was firmer against other major currencies on the week despite the pause in US interest rates. The dollar climbed 1.7% against the yen which declined due to remarks from Japanese officials that they are in no hurry to increase interest rates.

Market	Index	Year to Date Return 31.12.05 to 11.08.06		1 Week Return 28.07.06 to 11.08.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.5	-5.7	-1.0	0.3
US	NASDAQ	-6.7	-13.3	-1.3	-0.1
Europe	FT/S&P Europe Ex. U.K.	4.1	4.1	-1.1	-1.1
Ireland	ISEQ	3.2	3.2	-1.6	-1.6
UK	FTSE 100	3.5	5.9	-1.2	-0.9
Japan	Topix	-4.4	-9.8	0.4	-0.1
Hong Kong	Hang Seng	16.0	7.4	2.1	3.4
Australia	S&P/ASX 200	3.9	0.9	-0.1	1.2
Bonds	Merrill Lynch Euro over 5 year Govt.	-3.7	-3.7	-0.5	-0.5

Equities

USA

Overview

Wall St. declined on the week as the debate regarding US interest rates and economic growth continued. There was a good deal of activity in technology stocks in particular.

Key Movers

Apple Computer – Apple shares were down 7% on the week after its latest product launch failed to impress investors and it announced that its quarterly earnings need to be restated and would be delivered late.

Cisco – Cisco systems reported a 20% gain in quarterly revenues and delivered an upbeat outlook for 2007. The share price was up 13% on the week.

Analog Devices – The share price fell 17% when the company delivered weaker than expected third quarter earnings results.

Europe

Overview

European markets were hit by interest rate and terrorism concerns as well as disappointing earnings from a number of big names.

Key Movers

Deutsche Telekom – The biggest news came from Deutsche Telekom when it slashed its earnings targets from 2006 and 2007 due to strong competition in its domestic market. The stock fell 12% on the week and resulted in weakness across the board for European telecoms.

Airlines – Airlines and aerospace equipment stocks were hit on Thursday following news of the terrorist threat with Lufthansa and EADS down 4%.

Celesio – On a more positive note, the German drugs wholesaler, Celesio rose 8% after it reported strong second quarter sales in pharmaceuticals.

Schroders – In the UK, Schroders fell 10% when it announced an unexpected fall in funds under management in the second quarter.

Ireland

Overview

The Irish market was down on the week in line with its international peers.

Ryanair – The airline was down 4% on the week due to concerns that air travel numbers would be affected by terrorist activity.

Asia Pacific

Japanese market – The Japanese market ended the week in the black due to renewed confidence about the economy. Data released showed strong domestic figures for bank lending and machinery orders.

Australian market – The Australian market was held back by lower than expected results from Commonwealth Bank of Australia which posted its slowest profit growth in two years.

Hong Kong – The Hong Kong market outperformed its international peers as it reacted positively to the pause in US interest rate hikes.

Bonds

It was a difficult week for bonds with the Merrill Lynch over 5 year index falling 0.5%.

US bond prices fell due to stronger than expected retail sales data. Eurozone bonds slipped following strong growth figures from France which fuelled expectations of further rates rises from the ECB.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand by 4.0% in 2006, slightly above last year's figure of 3.7%. The major central banks have been focused all year on cyclical inflation pressures and strong commodity prices and short rates globally have risen further.
- The Fed met last week and as forecast left rates unchanged at 5.25%. Investors still see some modest additional tightening before year end, with rates peaking for this cycle at close to 5.5%. This expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation.
- The ECB recently increased rates to 3%, as fully expected by the market. Expectations of future hikes haven't changed much since then. Investors still expect rates to end this year between 3.25% and 3.5%. Bond prices have taken some comfort of late from well-behaved underlying inflation data and the thought that growth might peak in 2006.
- 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 continue to be a concern and periods of volatility are likely. The gradual ending of super-easy money policies in Japan deserves attention because of its potential negative impact on various asset classes.
- Currently, the funds are close to neutral on both bonds and equities versus the manager average. Sectorwise, positions are pretty balanced at the moment. Geographically the funds remain underweight Ireland and more neutral in the other regions.