Weekly
investment news

18th September 2006

EAGLE STAR

Global Overview

US and European equities rally
European and US equities rallied last week as a declining oil price and benign inflation data reaffirmed the widely held view that US interest rates have peaked.

Economic data
In the US, the University of Michigan consumer sentiment index moved higher as a result of lower oil prices. The US housing market remains under pressure with much speculation regarding the effect of the downturn on consumption going forward. In Europe, industrial production figures came in weaker than expected.

Oil prices
Oil prices fell over 5% on the week to $62 per barrel due to positive updates on US inventories for the winter. Members of OPEC have expressed concern about the price falls and have said they are likely to cut output at their next meeting in December.

Commodities
Commodities prices recorded further declines with gold down more than 5% over the week and copper down almost 8%.

Market	Index	Year to Date Return 31.12.05 to 15.09.06		1 Week Return 08.09.06 to 15.09.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	5.7	-1.1	1.6	1.9
US	NASDAQ	1.4	-5.1	3.2	3.5
Europe	FT/S&P Europe Ex. U.K.	8.5	8.5	1.5	1.5
Ireland	ISEQ	9.6	9.6	1.3	1.3
UK	FTSE 100	4.6	6.9	-0.0	0.8
Japan	Topix	-3.4	-9.6	-1.6	-2.3
Hong Kong	Hang Seng	15.9	8.0	0.5	0.7
Australia	S&P/ASX 200	5.7	1.3	-1.2	-1.4
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.5	-1.5	0.3	0.3

Equities

USA

Overview
US markets performed well over the week driven ahead by a fall in the price of oil and subdued inflation data. Technology stocks performed particularly well with the Nasdaq index up over 3% on the week.

Key Movers
Technology stocks – Microsoft stock rallied 5% on the week on upgrades from Goldman Sachs and expectations that its new MP3 player will be released before Christmas. There was a strong return from Adobe Systems which rose 18% on the week despite reporting a 35% drop in quarterly profits. The results were still better than anticipated and future guidance was upbeat.

Home Depot – The home improvement retailer leapt 8% on rumours that Edward Lampert, a well-known hedge fund manager might invest in the company.

Ford – The carmaker announced that it is to cut its workforce by one third in order to cut annual costs by $5 billion per year. The job cuts will total 14,000.

Europe

Overview

European stocks moved ahead last week with technology and engineering stocks recording the best returns.

Key Movers

MAN – The truck-maker gained 8% on the week when it confirmed its interest in Scania of Sweden. Scania stock rose 21% as a result.

Continental – The German car parts maker rose 7% on proposals from the US government that all new cars be fitted with anti-roll mechanisms by 2009.

Next – In the UK, Next rose 10% on the week when it reported results which were ahead of expectations.

Ireland

ISEQ – The Irish market performed well underpinned by strong returns from Kerry Group which rose 9%. Bank of Ireland and CRH rose over 2% on the week.

Ryanair – The stock recorded further gains of 2% last week on the back of falling oil prices.

Asia Pacific

Japan – The Japanese market performed poorly due to disappointing domestic economic data.

Hong Kong – The Hong Kong market outperformed its Asian counterparts due to expectations of a halt in US interest rates.

Australia – Weakness on commodity markets led to a sharp decline in Australian stocks.

Bonds

Bond prices held firm last week due to a moderate US and Eurozone inflation numbers. Hawkish comments from ECB officials contributed to investor nerves early in the week. However, the final estimate of eurozone inflation numbers showed that price pressures remain under control. The Merrill Lynch > 5 year Index rose 0.3% on the week.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand robustly again in 2006, although leading indicators suggest some growth moderation in 2007. 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 meets this week and is expected to leave rates unchanged at 5.25%. Investors now believe that interest rates have peaked for this cycle. This expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation.
- The ECB increased rates to 3% last month, as fully expected by the market. Expectations of future hikes have increased a little since then. Investors still expect rates to end this year close to 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 neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, positions are pretty balanced at the moment. Geographically the funds are overweight in Europe, underweight Ireland and the US and more neutral in the other regions.