Weekly
investment news

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EAGLE STAR

Global Overview

- Good news on US employment on Friday gave a significant boost to equity markets which registered strong gains on the week.
- Job creation in the US in March jumped to 308,000, its fastest rise in 4 years and well ahead of a consensus forecast of 120,000. The news convinced investors that the one disappointing sector of the US economy, the labour market, was finally improving and that the recovery could be sustained.
- The news was bad for bond prices as investors took the view that a sustained improvement in the labour market could result in an early rise in US interest rates.
- Meanwhile, the ECB at its monthly meeting on Thursday decided to leave eurozone interest rates on hold on the grounds that the economy would experience "continued, though modest, real GDP growth over the short term". The decision was a disappointment to both bond and equity investors.

Market	Index	Year to Date Return 31/12/2003 to 02/04/2004		1 Week Return 26/03/2004 to 02/04/2004	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	2.7	6.5	3.1	3.2
US	NASDAQ	2.7	6.5	5.0	5.1
Europe	FT/S&P Europe Ex. UK	5.4	5.4	4.0	4.0
Ireland	ISEQ	8.3	8.3	2.8	2.8
UK	FTSE 100	-0.3	6.2	2.5	3.6
Japan	Topix	13.5	21.1	0.7	2.2
Hong Kong	Hang Seng	1.2	4.7	2.0	2.3
Australia	S&P/ASX 200	4.2	8.9	0.3	2.4
Bonds	Merrill Lynch Euro over 5 year	2.7	2.7	-1.4	-1.4

Equities

USA

- The news on US employment followed equally positive signals on the manufacturing sector. The Institute of Supply Managers index jumped to 62.5, well ahead of an expected 59.5; a reading over 50 indicates expansion in the sector.
- The economic data gave a significant fillip to equity market sentiment, with growth oriented sectors the main beneficiaries. The NASDAQ Index rose 5% on the week.
- Defensive sectors under-performed, in particular the utility sector which is considered to be a bond proxy.
- There was little in the way of corporate news in advance of the start of the Q 1 results season.

Europe

- On this side of the Atlantic, favourable corporate news combined with economic optimism resulted in a strong week for technology stocks, while defensive sectors under-performed.
- Swedish telecoms equipment maker, Ericsson, announced that its gross margin for Q1 would exceed the 41.6% recorded in Q4 2003, pushing the share price up 13% on the week. The news boosted other companies in the sector, notably Alcatel and Nokia, which rose 8.3% and 6.5% respectively.
- Among financials, takeover speculation continued to act as a support, while Deutsche Bank gained over 5% as it appeared that the criminal court case against its chief executive was likely to collapse.

Ireland

- Clinical research group, ICON, had the best performance of the week, rising 21.5% on the back of strong results and a broker upgrade
- Among the larger stocks, the decision to hold eurozone interest rates steady boosted financials later in the week; Anglo Irish Bank, Irish Life & Permanent and AIB all gained over 5%, while Bank of Ireland recovered from some selling pressure earlier in the week and remained unchanged.

UK

- Oil giant, BP, which is the UK's largest company, rose 6.4% on announcing that it will return all surplus cash to shareholders if the oil price remains over $20 per barrel over the next 3 years.
- A trading statement from mobile phone operator, MMO2, was well received, helping the share price rise over 4%.

Pacific Basin

- Asian equities responded well to the release of generally positive economic data in both the US and Japan.
- Data releases in both Singapore and Korea pointed to higher levels of economic growth in the near future; the Singapore Index was among the strongest in the region, recording a gain of almost 3% on the week.

Latin America

- Brazil was the best performing region of the back of a waning in political and monetary risks, with the oil company Petrobras up over 10%.

Eurozone Bonds

- Many market watchers had been anticipating a cut in eurozone interest rates on Thursday or at worst strong indicators of one in the near future. Disappointment at the ECB announcement of no change sent bond prices lower.
- The news of strong US jobs growth had a further negative effect on prices as expectations on US interest rates began to turn upwards.

Currencies

- The dollar was boosted by the trend in US jobs numbers which raised expectations that US interest rates could rise sooner rather than later. It ended the week at $1.21 against the euro.
- In Japan, an optimistic Tankan survey of business confidence boosted the yen, which rose to a four year high against the dollar.
- The yen was also supported by the general belief that the Bank of Japan has substantially changed its intervention strategy of buying dollars in an attempt to drive the yen lower.

Global Outlook

- The global economy, led by the US, continues to be strong. Recent data from the US and Japan has been very supportive; data from the eurozone has been more mixed.
- The Fed had been using low inflation and weak jobs growth as justification for maintaining US interest rates at their current ultra-low levels. April's employment data questions that perception.
- Comments from ECB officials in the last few weeks have confused investors as to whether eurozone interest rates will be cut further or not.
- Eurozone bonds should continue to be pressurised by weak US bonds. However, the lingering possibility of an additional ECB rate cut may lead to eurozone bonds outperforming.
- The economic picture remains broadly positive for equity markets, although valuations are once more an issue in certain markets and sectors. Historically, equity markets have continued to be supported even in the initial stages of tighter monetary policy.
- Our current stance is overweight equities and underweight bonds versus the manager average. The funds continue to be overweight Asian equities due to more attractive valuations and better economic growth potential and are overweight Japan and Europe, on economic and valuation grounds respectively. The UK is underweight due to the defensive nature of the market. The funds continue to have overweight sectoral positions in financials, industrials and basic materials while remaining underweight in utilities and consumer staples.