Weekly investment news

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EAGLE STAR

Global Overview

- Most equity markets were weaker last week as strong economic data in the US caused interest rate expectations there to increase.
- Retail sales for March and the Philadelphia Federal Reserve survey were both better than expected, as was the Empire survey of manufacturing activity.
- Higher US inflation further fuelled fears of an early interest rate hike. The overall inflation rate rose to 1.7% due to higher energy, transport and clothing prices.
- With the earnings results season in full swing, corporate news was better than expected but did little to shift attention away from the economic trends.

Market	Index	Year to Date Return 31/12/2003 to 16/04/2004		1 Week Return 09/04/2004 to 16/04/2004	
		Local Currency	Euro	Local Currency	Euro
US	S&P 500	2.0	6.9	-0.4	0.3
US	NASDAQ	-0.4	4.3	-2.8	-2.1
Europe	FT/S&P Europe Ex. UK	5.4	5.4	-0.1	-0.1
Ireland	ISEQ	8.3	8.3	-0.8	-0.8
UK	FTSE 100	1.4	6.8	1.1	-0.3
Japan	Topix	14.6	19.4	0.5	-0.2
Hong Kong	Hang Seng	-0.9	3.3	-3.5	-2.8
Australia	S&P/ASX 200	3.9	7.3	-1.0	-2.7
Bonds	Merrill Lynch Euro over 5 year	2.6	2.6	-0.1	-0.1

Equities

USA

- The technology sector bore the main brunt of investor's fears of higher interest rates, with the NASDAQ Index falling 2.8%, leaving it marginally lower on a year to date basis.
- Interest rate sensitive sectors like financials and utilities also under-performed. Pharmaceuticals were the big gainers, the sector recording a rise of 5% on the week.
- Highlights of the Q1 earnings reporting season were better than expected results from Johnson & Johnson and Citigroup, although the good news from Citigroup failed to prevent a decline in the share price.
- Intel gave a poorer than expected outlook and this added to the downturn in technology stocks.

Europe

- Nokia followed its 19% fall in Easter week with a further 12% decline as it warned that its Q2 earnings could be lower. The world's largest maker of mobile handsets is facing increasing competition from rivals Samsung and Ericsson, whose more sophisticated products are taking market share.
- European pharmaceuticals had a good week, helped by continued takeover speculation and the prospect that higher US interest rates would sustain recent strength in the dollar and help their export earnings.

Ireland

- Irish stocks generally followed the weakish trend in the major markets, with most of the leaders losing ground.
- The one exception was Elan, which was supported by strength in the pharmaceutical sector in the US and Europe. The share price rose 2.4% on the week.

UK

- The FTSE 100 Index rose 1.1% helped by a strong showing from pharmaceuticals and energy stocks whose export earnings would benefit from a stronger dollar.
- GlaxoSmithKline put on 5%, while BP and Shell gained 6.3% and 3.1% respectively.

Pacific Basin

- Strong economic data from the US and China heightened concerns that interest rates may be increased sooner than expected and most markets ended down on the week.
- Chinese Government officials announced a series of additional tightening measures, such as an increase in bank reserve requirements, in an attempt to slow down the economy to a more sustainable pace.
- Chinese shares traded in Hong Kong fell almost 7% over the week.
- The Japanese market was marginally higher as exporting stocks gained from the stronger trend in the US economy and a slight weakening of the yen.

Latin America

- Interest rates were cut in Brazil as expected, but the stock market came off 4% as the economy does not appear to be reviving as much as hoped.

Eurozone Bonds

- While US treasury prices were down on the week, due to prospects of an early interest rate hike, eurozone bond prices fell less heavily due to weaker economic conditions in the eurozone.
- Developments at the Bundesbank also sustained expectations that interest rates in the eurozone could still be lowered. Ernst Welteke, president of the Bundesbank, finally resigned following adverse publicity on his acceptance of corporate entertainment. Welteke, who sat on the ECB, was perceived as a hawk on interest rates and his resignation caused a slight shift in expectations.

Currencies

- The shift in expectations on US interest rates caused some re-positioning out of Sterling and the Australian dollar, both currencies having risen sharply over the last number of months on interest rate differentials. The Sterling/dollar exchange rate dropped from $1.83 to $1.79 on the week

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. Recent economic data including the employment figure for March 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 while the US is underweight on valuation grounds. The funds continue to have overweight sectoral positions in cyclical areas such as industrials and basic materials while remaining underweight in utilities.