Weekly investment news

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EAGLE STAR

Global Overview

- Equity markets struggled to make ground last week as the conflicting influences of strong US economic growth and higher interest rate prospects left a degree of uncertainty among investors. The same influences also triggered further falls in bond prices.
- With the earnings results season drawing to a close, there was little in the way of corporate news to balance equity sentiment towards the positive side and most markets ended the week marginally lower.
- Economic news was positive, with US employment figures revealing new jobs growth of 288,000 last month, over 100,000 more than the expected figure. The index of activity in the services sector was also higher than forecast.
- On the interest rate front, while both the US Fed and the ECB left rates unchanged, the leap in US employment numbers accelerated expectations of an earlier increase in US rates. The futures market now anticipates a 1% rise in US rates by the end of the year.
- In the UK, base rates were raised by 0.25% in response to stronger inflationary pressures.
- Oil prices surged to $40 per barrel on Friday in response to rising tensions in the Middle East and tight supply and demand conditions in the US market. The leap in prices raised concerns about inflation, with a knock on effect on interest rate expectations.

Market	Index	Year to Date Return 31/12/2003 to 07/05/2004		1 Week Return 30/04/2004 to 07/05/2004	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.2	4.4	-0.8	-0.1
US	NASDAQ	-4.3	1.1	-0.1	0.6
Europe	FT/S&P Europe Ex. U.K.	2.8	2.8	-0.6	-0.6
Ireland	ISEQ	7.0	7.0	-1.1	-1.1
UK	FTSE 100	0.5	6.3	0.2	1.5
Japan	Topix	10.3	11.4	-3.0	-4.0
Hong Kong	Hang Seng	-5.3	-0.4	-0.3	0.4
Australia	S&P/ASX 200	2.8	1.8	-0.2	-1.8
Bonds	Merrill Lynch Euro over 5 year	1.4	1.4	-0.8	-0.8

Equities

USA

- The week on Wall Street was dominated by economic data as most companies have completed their earnings reports for the first quarter.
- Technology and pharmaceutical stocks performed best while interest rate sensitive sectors, such as utilities and financials under-performed.
- Tyco, the industrial conglomerate, pleased investors with earnings above expectations and a rise in its forecast of full year figures.

Europe

- Oil and gas stocks recorded the best gains in Europe, helped by the leap in crude prices.
- UBS, the banking giant, pleased the market with strong first quarter numbers, prompting a number of analysts to upgrade their forecasts for the full year.
- The news was less positive from Hochtief, the German construction group, whose shares dropped 22% over the week after poor results and a profit warning from its Australian subsidiary.
- Royal Bank of Scotland announced the purchase of US bank, Charter One Financial, for $10.5bn., which will make it one of the ten largest banks in the U.S.

Ireland

- Anglo Irish Bank reported interim results which were ahead of forecasts, helping the stock to out-perform in a difficult week for the larger banks.
- Ryanair felt the impact of a profit warning from UK low cost operator EasyJet and fell 7% on the week.

Pacific Basin

- Fears of higher US interest rates and of a possible sharp slowdown in the Chinese economy continued to weigh on Asian equity markets.
- The Chinese Premier, Wen Jiabao, said that "forceful" steps would be taken to slow down the economy. Given the importance of the Chinese economy to other Asian countries, especially Korea and Japan, this only served to increase investors concerns.

Eurozone Bonds

- Bond prices were marked lower as investors became more convinced of an early rise in US interest rates while the rise in oil prices raised inflation fears.
- The eurozone economy remains weak, with German industrial production falling 2.3% in March and manufacturing orders down 0.7%. Nonetheless, the ECB left interest rates unchanged at its monthly meeting, its president, Mr. Trichet, stating that the latest economic data supported expectations of an economic recovery. The Merrill Lynch Euro over 5 year index fell 0.82% over the week.

Global Outlook

- The global economy, led by the US, continues to be strong. Recent data from the US and Japan have been supportive; data from the eurozone have been more mixed.
- Recent US jobs data, as well as comments from the Federal Reserve Chairman, Alan Greenspan, regarding the return of pricing power, has changed the views of market participants regarding the timing of US interest rate rises.
- Comments from ECB officials in the last few weeks have removed any thoughts of further eurozone rate cuts.
- Eurozone bonds should continue to be pressurised by weak US bonds.
- At the moment equity markets are navigating between a supportive earnings picture and concerns over the timing and pace of US interest rate rises.
- Our current stance is neutral equities – having reduced positions towards the end of April – and underweight bonds versus the manager average. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials (although less so than previously) while remaining underweight in utilities. Financials have been moved from neutral to underweight given their sensitivity to the prospect of rising interest rates, while pharmaceuticals have been increased to slightly overweight. The funds currently have no significant geographical bias.

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