Weekly investment news

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EAGLE STAR

Global Overview

- Middle East/Iraq tensions, higher interest rate expectations and a sharply rising oil price combined to push equity markets lower over the week.
- US economic numbers registered higher industrial production and inflation data, although the University of Michigan Consumer Confidence Index, released on Friday, came in below expectations.
- Eurozone first quarter growth data was surprisingly strong.
- The US trade deficit rose to its highest ever level of $46 billion in April, well above an expected figure of $43 billion., as the strengthening economy sucked in imports.
- Asian equity markets posted sharp declines as Chinese economic tightening measures, politics and rising oil prices caused sell-offs in regional equity markets.

Market	Index	Year to Date Return 31.12.03 to 14.05.04		1 Week Return 07.05.04 to 14.05.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.5	4.3	-0.3	-0.1
US	NASDAQ	-5.0	0.6	-0.7	-0.5
Europe	FT/S&P Europe Ex. U.K.	0.7	0.7	-2.1	-2.1
Ireland	ISEQ	4.9	4.9	-1.9	-1.9
UK	FTSE 100	-0.8	3.5	-1.3	-2.6
Japan	Topix	4.6	4.1	-5.2	-6.6
Hong Kong	Hang Seng	-10.3	-5.6	-5.3	-5.2
Australia	S&P/ASX 200	1.8	-1.3	-1.0	-3.1
Bonds	Merrill Lynch Euro over 5 year	1.3	1.3	-0.1	-0.1

Equities

USA

- The S&P 500 Index held up better than most, registering a decline of only 0.3% on the week. This was despite slightly disappointing comments from Dell and Cisco.
- Energy was again one of the out-performers, helped by a leap in the oil price.
- Tobacco stocks were hit by a Florida Supreme Court decision to review the dismissal of a class action suit against the industry.

Europe

- European stocks were hit by inflation fears as the oil price surged.
- Corporate results did little to lift the downbeat mood. Ahold, the giant Dutch retailer, revealed an 11.5% decline in Q1 sales, causing a 7.4% fall in the share price, while Dutch insurer, Aegon's results were also disappointing.
- Reckitt Beneckiser had strong Q1 results ahead of expectations, while BskyB disappointed on its quarterly subscriber numbers.

Ireland

- Bank of Ireland reported an 8% rise in annual pre-tax profits to €1.27 billion, which was in line with expectations. Financial shares were marked lower on the week in line with the general downward drift in markets.
- Elan also announced first quarter results in line with expectations and it confirmed it was on track to file FDA applications for its MS drug, Antegren.
- Drinks and snack foods group C&C came to the market on Friday at a flotation price of €2.26, which was at the bottom of its indicative price range.

Pacific Basin

- The week started badly in Japan as the US embassy in Tokyo warned of a possible terrorist attack. At the end of the week, Prime Minister Koizumi confessed to missing pension payments in the past, an issue which has already led to resignations by a couple of senior politicians.
- Elections in India produced a surprise result as Sonia Gandhi's Congress party ousted the ruling coalition. The benchmark Indian stock index fell over 10% as investors feared that economic reforms may stall as the Congress party will have to rely on the support of communist parties to implement policies.
- The higher oil price exacerbated declines across the region as most Asian countries depend heavily on imported oil.

Eurozone Bonds

- Bond prices were hit by inflation and interest rate fears as oil prices surged and US economic indicators remained robust.
- There was some relief on Friday as US and eurozone bond markets rebounded from oversold levels. The eurozone over 5-year bond index ended the week virtually unchanged.

Global Outlook

- The global economy remains strong although the eurozone is lagging other regions. Chinese growth is too strong for policymakers who are trying to reign in excessive borrowing and investment.
- Recent US jobs and inflation data plus rising oil prices have changed the views of market participants regarding the timing of US interest rate rises.
- Fed comments suggest that rate hikes will be done in a measured fashion.
- Eurozone bonds should continue to be pressurised by weak US bonds; some respite is possible given the swift rise in rates in the past six weeks. However, it remains a difficult environment for bonds.
- At the moment equity markets are suffering on the back of concerns over the timing and pace of US interest rate rises as well as high oil prices, despite the strong economic growth and corporate earnings backdrop.
- 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.