Weekly
investment news

Issued on 24th May 2004

EAGLE STAR

Global Overview

- Equity markets fell on Monday as oil prices shot up and Middle East tensions heightened following the assassination of Izzedin Salim, the head of Iraq's governing council. They largely recovered in subsequent days and most markets ended the week little changed.
- Fears that US oil supply would fail to meet high holiday season demand pushed crude prices to almost $42 per barrel, though by the end of the week the price had fallen back to $40 in expectation that OPEC leaders would agree to increase output quotas.
- In Asia, the Indian stock market collapsed early in the week following the surprise victory of Sonja Gandhi's Congress Party in the general election. It recovered ground subsequently, for a net loss of 2% on the week, as it emerged that the former finance minister, Manmohan Singh, would become Prime Minister.
- Fed officials reiterated that interest rates are most likely to be raised gradually rather than aggressively.
- Economic news was also supportive of a gradual interest rate hike; weekly US employment data was slightly weaker than expected.
- Meanwhile, in China, the government ruled out an immediate interest rate hike, easing fears of a rapid economic slowdown.

Market	Index	Year to Date Return 31.12.03 to 21.05.044		1 Week Return 14.05.04 to 21.05.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.7	2.9	-0.2	-1.3
US	NASDAQ	-4.6	-0.2	0.4	-0.7
Europe	FT/S&P Europe Ex. U.K.	0.8	0.8	0.2	0.2
Ireland	ISEQ	5.3	5.3	0.4	0.4
UK	FTSE 100	-1.0	3.9	-0.2	0.4
Japan	Topix	7.8	8.1	3.1	3.9
Hong Kong	Hang Seng	-8.0	-4.0	2.7	1.7
Australia	S&P/ASX 200	2.9	0.4	1.1	1.7
Bonds	Merrill Lynch Euro over 5 year	1.5	1.5	0.2	0.2

Equities

USA

- A strong earnings report from Hewlett Packard (+6.6% on the week) and positive guidance on future earnings lifted the technology sector and helped the NASDAQ register a 0.4% gain on the week following a poor start on Monday.
- The airline sector was lifted late in the week by signs that the oil price was stabilising with Delta Airlines gaining 28.5% following a broker upgrade.
- The retail sector was boosted by better than expected results from department store chain, JC Penney, which rose over 9%.
- Energy stocks under-performed as the oil price declined 3% over the week.

Europe

- European markets fell on Monday but recovered thereafter as confidence on the economic and earnings outlook overtook oil price and interest rate concerns.
- The easing of fears about Chinese economic retrenchment was a big plus for mining stocks which made solid gains, with BHP Billiton, Rio Tinto and Xstrata all rising 6%.
- Oil stocks suffered from profit taking as the oil price eased off and under-performed on the week.
- In the UK, biotechnology company Celltech announced an agreed £1.53bn. bid by Belgian pharmaceuticals group, UCB.

Ireland

- Elan made further progress, rising 4.3% as it announced that it would apply to the European Medicines Agency in the fourth quarter to approve its drug, Antegren, as a treatment for Crohn's disease.
- Anglo Irish Bank was also up 4% helped by an upgrade from Merrill Lynch.
- Irish Life & Permanent announced at its agm on Friday that Gillian Bowler would take over from outgoing chairman, Roy Douglas.

Pacific Basin

- Asian equities rose for the first week in four after China's central bank chief said it would not yet raise interest rates and Japan posted another quarter of better than expected GDP growth.
- Some other concerns remained, however. The Korean economy, which is relatively highly dependent on Chinese GDP growth, grew less than expected in the first quarter of the year. The high oil price also weighed on sentiment.
- Indian equities declined as investors came to terms with the shock election victory of opposition partners.

Eurozone Bonds

- Inflation expectations eased a little with the reduction in crude oil prices over the week and this helped bond yields to stabilise, as did the accommodating statement from US Fed governor, Ben Baranke.
- Indications of weak investor confidence in the German ZEW Survey also helped bond market sentiment in the eurozone and prices improved marginally over the week.

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, its 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.

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