Weekly investment news

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EAGLE STAR

Global Overview

- Activity on most markets was subdued last week. The US market had a short week due to the closing of exchanges on Friday to mark the death of Ronald Reagan.
- Investors continued to speculate over interest rate rises and this is likely to continue until the June 30th meeting of the Federal Reserve in the US. Markets have priced in a 0.25% rate rise at this meeting.
- Comments by numerous Federal Reserve officials helped to fuel discussions on interest rates. Alan Greenspan, US Federal Reserve chairman, commented that the Fed would do whatever is required to curb inflation.
- In the UK, the Monetary Policy Committee announced a rise in rates from 4.25% to 4.5% on Thursday, as expected.
- The US dollar strengthened, ending the week at $1.20 against the euro.
- The oil price continued its decline from the previous week and this helped equity markets.

Market	Index	Year to Date Return 31.12.03 to 11.06.04		1 Week Return 04.06.04 to 11.06.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	2.2	6.9	1.2	3.5
US	NASDAQ	-0.2	4.4	1.1	3.3
Europe	FT/S&P Europe Ex. U.K.	4.0	4.0	0.8	0.8
Ireland	ISEQ	8.3	8.3	0.4	0.4
UK	FTSE 100	0.2	6.8	0.7	1.7
Japan	Topix	11.2	13.5	3.1	6.3
Hong Kong	Hang Seng	-1.4	2.7	3.1	5.4
Australia	S&P/ASX 200	5.4	1.4	0.3	2.1
Bonds	Merrill Lynch Euro over 5 year	1.2	1.2	-0.1	-0.1

Equities

USA

- Equity markets advanced in the US last week despite indications that the US Federal Reserve may increase interest rates more forcefully if their inflation forecasts prove too low.
- Investors will pay close attention to US inflation data released tomorrow.
- General Motors said it planned to invest over $3 billion in China in order to double its capacity there. The share price rose 3.8% on the week.
- Technology stocks outperformed in the US last week while healthcare underperformed.

Europe

- European markets made modest gains, helped by the fall in oil prices.
- On the corporate front, Easyjet fell 19% as it warned of poor expected earnings due to higher fuel costs.
- Nokia, the Finnish mobile phone group, rose 5.4% on the week as it is set to unveil new technology that could help it to regain some lost market share.

Ireland

- Irish annual inflation rose to 1.7% in May from 1.4% in April.
- Financial stocks held onto their gains of recent weeks.

Pacific Basin

- Asian equities rose last week as economic reports from around the region boosted investor sentiment.
- In Japan, machinery orders and industrial production were both better than expectations while in Hong Kong retail sales rose by 23%. Economically sensitive stocks such as construction companies and exporters outperformed.

Eurozone Bonds

- Bond prices declined on the week due to indications that the Federal Reserve may raise US interest rates faster than previously anticipated.
- Eurozone bond prices were marginally lower on the week. There was upbeat economic data from Germany with German industrial production rising 2.2% in April over March.

Global Outlook

- The global economy remains strong. The eurozone has lagged other regions, although recent data has been more encouraging. Chinese policymakers remain focused on reining in growth rates and lowering what they regard as excessive borrowing and investment.
- If oil prices are sustained at very high levels they could be a threat to the global economy going forward.
- The Federal Reserve is very close to moving rates from their current 1% level. It has said that any moves will be carried out in a measured fashion. The ECB is officially in a neutral stance at the moment.
- Bond markets in the US have begun to anticipate rising short rates and this has also had a negative impact on eurozone bonds. Overall, it remains a difficult environment for bonds.
- Equity markets have been buffeted by 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 to slightly overweight equities and underweight bonds versus the manager average. The funds continue to have slightly overweight sectoral positions in cyclical areas such as general industrials and basic materials, 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 overweight. As regards geographical bias, the funds are overweight Europe and underweight the Pacific region.