Weekly
investment news

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EAGLE STAR

Global Overview

- Equity markets were flat over the week as positive economic news was countered by ongoing high oil prices and continued terrorism fears.
- On the interest rate front, there is now broad acceptance that the Federal Reserve will raise interest rates at the end of the month. Expectations are for a rise of 0.25%.
- Federal Reserve chairman, Alan Greenspan, commented that inflation was not getting out of hand and interest rates would rise in a measured way.
- This was supported later in the week by CPI data which, when food and energy prices are excluded, was up 0.2% month on month, less than the increase in the previous month.
- Other US economic news was positive, with consumer confidence, industrial production, housing starts and capacity utilisation all above expectations.
- The trade balance and current account deficits both widened to record levels of $48.3bn and $144.9bn., respectively. The news pushed the euro higher to $1.21 against the dollar.

Market	Index	Year to Date Return 31.12.03 to 18.06.04		1 Week Return 11.06.04 to 18.06.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	2.1	5.9	-0.1	-1.1
US	NASDAQ	-0.8	2.9	-0.7	-1.6
Europe	FT/S&P Europe Ex. U.K.	4.6	4.6	0.6	0.6
Ireland	ISEQ	8.5	8.5	0.2	0.2
UK	FTSE 100	0.7	7.5	0.5	0.6
Japan	Topix	10.2	12.6	-0.9	-0.5
Hong Kong	Hang Seng	-5.7	-2.6	-4.4	-5.3
Australia	S&P/ASX 200	6.9	1.6	1.4	0.2
Bonds	Merrill Lynch Euro over 5 year	2.0	2.0	0.8	0.8

Equities

USA

- US indices were little changed over the week. Volume was low, reflecting summer trading and a lack of corporate news.
- Energy stocks out-performed, gaining from the continued strength in oil prices. Technology stocks remained out of favour and under-performed.
- Ford Motors raised its earnings guidance for the year, citing strength in its financial services division.

Europe

- European markets started the week on a downbeat note but gathered strength when it appeared that the Fed would not aggressively raise interest rates.
- European oil stocks also had a strong week, helped by the surge in crude prices. The leisure and tobacco sectors also out-performed.
- Technology stocks under-performed, with Philips losing 3.6% and Misys down over 7% after a disappointing trading update.
- UK retail stocks had a good week, Tesco rising 2% on better than expected sales and Dixons gaining from rumours of bid interest.
- Marks & Spencer's rejected a possible £3.70 per share bid from Phillip Green and ended the week down 2.7%.

Ireland

- The highlight in the Irish market was a strong trading statement from and a subsequent bid for Heitons by Grafton Group. Both stocks were bid up on the week, Heiton adding 31% and Grafton up 7%.
- Waterford Wedgwood announced disappointing results with losses of €8.4m. as the weaker dollar affected its US earnings. The stock fell 10% on the week.

Pacific Basin

- Most Asian equity markets finished down last week. Hong Kong fell more than most other markets due to concerns that China might raise interest rates to cool its economy.
- The Bank of Japan released an upbeat assessment of the country's economy, in part causing bond yields to rise to their highest levels in several years.

Eurozone Bonds

The likelihood of a measured approach to US interest rate rises helped bond markets reverse some of the previous weeks' losses and the Eurozone over 5 year bond index gained 0.8% on the week. This was despite an announcement that eurozone inflation stood at 2.5%, above the ECB target of 2%. ECB president, Jean-Claude Trichet, took a relatively relaxed view of the figure, stating that it was adversely affected by the May surge in oil prices.

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 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 has indicated that it will start increasing rates, from the current 1% level, at the end of June. 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.