Weekly

investment news

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EAGLE STAR

Global Overview

- Oversold equity markets rebounded last week on the back of some better than expected US economic data and corporate news.
- In the US, inflation in July was lower than expected as measured by the consumer price index.
- Oil prices hit record levels last week, driven by numerous factors. Demand from the US and China, the world's two largest consumers of oil continues to rise. Data released showed that China's imports of oil in July are up 40% on the previous year. Demand from India has also been quite strong. Concern over the stability of supply from Iraq and Russia also contributed to rising prices.
- Economic data from Europe was weaker with the ZEW survey on business sentiment from Germany coming in lower than expected.
- On currency markets, the US dollar had a relatively quiet week. Sterling moved lower against the euro as investors speculate that the UK is much closer to the end of its rate increasing cycle.

Market	Index	Year to Date Return 31.12.03 to 20.08.04		1 Week Return 13.08.04 to 20.08.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.2	0.8	3.2	3.6
US	NASDAQ	-8.3	-6.3	4.6	5.1
Europe	FT/S&P Europe Ex. U.K.	-1.5	-1.5	1.4	1.4
Ireland	ISEQ	9.0	9.0	1.1	1.1
UK	FTSE 100	-2.4	1.7	1.6	0.8
Japan	Topix	6.3	6.8	1.2	2.9
Hong Kong	Hang Seng	-1.6	0.0	0.1	0.6
Australia	S&P/ASX 200	6.0	4.2	0.6	2.1
Bonds	Merrill Lynch Euro over 5 year	5.0	5.0	0.0	0.0

Equities

USA

- Equity markets in the US had a good week despite the continued rise in oil prices. Technology and basic materials sectors outperformed.
- The NASDAQ bounced by 4.6% following a number of difficult weeks. Google, the internet search engine provider, made its widely anticipated debut onto the NASDAQ on Thursday. The size and price of the initial public offering had been reduced. However, the shares were up 18% on Thursday evening.
- Home Depot reported a 19% rise in quarterly net income, indicating that American consumers continue to spend on big ticket items for their homes.

Europe

- European stocks staged a less impressive rally than their US counterparts but did improve from 2004 lows in the previous week.
- Hurricane Charlie in Florida led to some concerns about the reinsurance sector. However, as the week progressed, reassuring announcements by companies such as Munich Re and Converium helped to ease investor nerves. Most companies released cost estimates that were lower than the market had anticipated.
- In the UK, there were speculation regarding a bid by Total, the French oil company for Shell Oil. Neither company would make any official comment although the CFO of Total said earlier this month that high oil prices meant that now was not the time for acquisitions.
- HBOS is still considering a possible bid to counter the Banco Santander Central Hispano offer for Abbey National.

Ireland

- On the Irish market, Elan had a volatile week following an announcement that one year trial data on its multiple sclerosis drug, Antegren, would not be released as early as expected in order to preserve the integrity of the two year trials. Elan has indicated that the data might be made public in time for a major European MS conference at the start of October.

Pacific Basin

- Asian equities moved higher last week as positive economic data outweighed fears regarding the impact of the high oil price.
- Technology stocks led the market due to their perceived modest valuation and also because of reports that a recent inventory build-up had been run down.
- Other cyclical sectors such as basic materials also outperformed.

Eurozone Bonds

- Bonds were flat last week despite the rise in equity markets. Softer consumer price inflation data from the US helped prices. Continued tension in Iraq and terrorist concerns ahead of the US presidential election also supported the market.
- Oil had been the main focus of bond markets in recent weeks. While the high oil price continues to cause some concern due to the effect on inflation levels, the expected slow pace of interest rate increases, particularly in Europe, continues to be bond supportive. Evidence of benign inflation data has also helped.

Global Outlook

- Activity levels in the global economy remain high, although there has been some softness in recent US and Japanese data. The eurozone has been a laggard but is now back to its trend growth rate. The much-watched Chinese economy is slowing from a period of torrid growth. A high and sustained oil price should lower growth but increase inflation. So far, policy makers have been relaxed about oil's impact on both of these variables.
- The Fed has commenced its well-flagged tightening cycle, beginning with two 0.25% increases to 1.5%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures will be closely watched by both eurozone and US central banks in coming months, although the ECB's official stance is that it has no bias as to the next change in rates.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric. In addition, global growth indicators are now anticipating a loss of momentum in the pace of economic expansion, albeit from high levels.
- Strong profits and earnings' revisions have validated last year's strong price gains; this year's overall performance for global equities has been more muted. Underlying profit strength and lower valuations than last year offer support to equity markets; however, recent earnings' guidance from some US companies has been a bit disappointing. Terrorism worries and the rising price of oil have sapped the demand for equities over the past six weeks, but markets' behaviour has been much better in the past week or so.
- Our current stance is overweight equities versus the manager average and slightly underweight in bonds. The funds continue to have overweight sectoral positions in cyclical areas such as general industrials and basic materials, and an underweight position in consumer staples, while remaining relatively neutral in other sectors. As regards geographical bias, the funds are overweight Europe and underweight the UK and the US, while the Pacific region has been increased from underweight to slightly overweight.