# Weekly investment news

EAGLE STAR

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## Global Overview

- Most equity markets rose marginally last week. The technology sector was the best performer due to an upbeat trading statement from Nokia.
- Economic data from the US showed an unexpected fall in producer price inflation last month. Low inflation enables the Federal Reserve to raise interest rates at a measured pace. The US trade deficit declined to $50.1billion in July from $55 billion in June. This is still the second highest figure on record.
- Alan Greenspan, US Federal Reserve Chairman delivered a speech on Wednesday to the House Budget Committee. Market reaction was muted as the Chairman reiterated previous remarks about low inflation pressures and measured interest rate rises.
- The US dollar weakened by 1.8% on the week; the euro rising almost to $1.23 by the end of the week. The Japanese yen also fell against the euro as second quarter Japanese GDP growth was revised down to 1.3% from 1.7%.
- Oil prices continued to weaken in the early part of the week but rose on Thursday as inventory data from the US showed that oil supplies had fallen. Overall prices fell 2.5% on the week.

| Market | Index | Year to Date Return 31.12.03 to 10.09.04 | | 1 Week Return 03.09.04 to 10.09.04 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S & P 500 | 1.1 | 3.8 | 0.9 | -0.8 |
| US | NASDAQ | -5.4 | -2.9 | 2.7 | 1.0 |
| Europe | FT/S&P Europe Ex. U.K. | 2.8 | 2.8 | 0.3 | 0.3 |
| Ireland | ISEQ | 13.1 | 13.1 | 0.1 | 0.1 |
| UK | FTSE 100 | 1.5 | 4.9 | -0.1 | -0.7 |
| Japan | Topix | 7.9 | 8.4 | 0.2 | -0.8 |
| Hong Kong | Hang Seng | 2.4 | 5.7 | 0.4 | -1.3 |
| Australia | S&P/ASX 200 | 9.0 | 3.5 | 0.5 | -0.6 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 5.5 | 5.5 | 0.9 | 0.9 |

## Equities

### USA

- Technology stocks were the big movers in the US last week. This was despite earnings warnings from a number of technology companies. Markets had largely anticipated the warnings, mostly from chipmakers and thus they had less of an impact.
- Texas Instruments lowered its quarterly revenue outlook but gained on the week. National Semiconductor also reduced revenue expectations but delivered strong quarterly profits. The stock climbed 12% as a result.
- It appears that Oracle has won its hostile take-over bid for Peoplesoft. A US court ruled against a Department of Justice attempt to block the deal. Peoplesoft shares rose 10% on the news.
- Alcoa, the world's biggest aluminium producer fell 7% when it warned that its third quarter earnings would miss expectations.

## Europe

- In Europe, the big news of the week came from Nokia, the world's largest supplier of mobile phones. The company raised its guidance for third quarter sales and profits citing strong demand. The Nokia share price suffered earlier this year due to concerns over its product portfolio and loss of market share.
- Schering, the German drugs group announced that its oncology treatment, Bonefos has been granted priority review by the US Food and Drug Administration. This status is generally given to drugs that present a high possibility of a significant improvement over current treatments.

## Ireland

- Kingspan's first half results exceeded market expectations. A strong outlook statement accompanied the results and the stock rose 7% over the week.
- Grafton, the building merchants and DIY retail group reported a 30% rise in profits for the first half of 2004 and delivered an upbeat outlook for the remainder of the year.
- Jurys Doyle Hotel Group results were in line with market forecasts but a subdued performance from its four-star hotels left the stock down 3%.
- There was good economic news from Ireland on Friday. Industrial production jumped sharply in July, by 14% month on month seasonally adjusted.
- Elan announced they would be joining the FTSE Group's Eurotop 300 index from Sept 20th.

## Pacific Basin

- Asian stocks rose last week, led by gains among electronic makers such as Samsung Electronics after Nokia increased its earnings forecast.
- Shares of Chinese companies weakened after strong economic data raised fears that the government may implement additional tightening measures in order to cool the economy.
- Japanese equities lagged the regional rise after the government unexpectedly lowered an estimate of second quarter GDP.

# Eurozone Bonds

- An unexpected decline in inflation data from the US provided a boost to bond markets last week.
- Alan Greenspan reaffirmed in his speech to the House Budget Committee that interest rates would rise at a measured pace as inflation data continues to be subdued.
- There was also an element of safehaven buying following a bomb outside the Australian embassy in Jakarta. The Merrill Lynch over 5 Year government bond index rose 0.9% on the week.

# 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. The recent decline in the oil price is a positive.
- 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 helped by recent weakness in the oil price.
- Our current stance is overweight equities versus the manager average and tactically overweight 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. Financials have been moved from neutral to overweight. As regards geographical bias, the funds are overweight Europe, the Pacific region and Japan while underweight the UK and the US.