Weekly

investment news

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EAGLE STAR

Global Overview

- Equity markets notched up healthy gains last week in response to some positive US economic numbers and a temporary halt to the rise in oil prices.
- Initially, investors were jittery as crude oil price futures rose above $50 per barrel for the first time ever on supply fears, but a surprise rise in inventories and talk of a cease-fire in Nigeria saw the price drop back to $49 by the end of the week.
- US economic strength was underlined by an upward revision in Q2 GDP from 2.8% to 3.3%, annualised.
- A 9.4% monthly rise in new home sales, higher vehicle sales and an above-expectations jump in the Chicago Purchasing Managers' Index were also positively received.
- Meanwhile, US inflation data remained benign, the PCE price deflator for August showing a year on year increase of 1.4%.
- Technology stocks were among the best performers, largely driven by renewed economic confidence. The NASDAQ Index notched up a gain of 3.3% on the week.
- On the currency front, the dollar continued its downward drift, falling to $1.24 against the euro ahead of the G7 meeting.

Market	Index	Year to Date Return 31.12.03 to 01.10.04		1 Week Return 24.09.04 to 01.10.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	1.8	3.1	1.9	0.8
US	NASDAQ	-3.1	-1.8	3.3	2.2
Europe	FT/S&P Europe Ex. U.K.	4.6	4.6	1.8	1.8
Ireland	ISEQ	14.6	14.6	0.0	0.0
UK	FTSE 100	4.1	6.3	1.8	0.4
Japan	Topix	7.1	5.6	1.4	0.5
Hong Kong	Hang Seng	4.3	5.3	0.4	-0.7
Australia	S&P/ASX 200	10.9	8.3	1.0	1.5
Bonds	Merrill Lynch Euro over 5 year Govt.	6.2	6.2	-0.3	-0.3

Equities

USA

- In the early part of the week, energy and mining stocks supported the S&P 500 Index, the former driven by the rise above $50 in the oil price and the latter helped by demand from China.
- Technology stocks took up the running subsequently as better economic news led to the view that the sell-off in the sector of previous weeks may have been overdone.
- On Thursday, pharmaceutical giant, Merck, rocked equity markets with a shock announcement that it was withdrawing its arthritis drug, Vioxx, because of links with cardiovascular disease. Sales of Vioxx reached $2.6bn last year. The Merck share price fell 27% on the announcement.

Europe

- Resources and mining stocks were among the best performers in a strong week for European markets. The vibrant Chinese economy has been a prime source of demand for companies in the sector and this has been the main driver of their strong out-performance so far this year.
- In the UK, cement company, RMC, surged 42% on news of a £2.3bn take-over bid from Mexican cement maker, Cemex.
- Telecom stocks were boosted by a positive trading statement from MMO2 and by analyst upgrades on Nokia, which saw the share price gain 4%.

Ireland

- The Cemex bid for RMC also filtered through to the Irish market, causing Readymix, which is owned by RMC to jump over 10% and shifting attention away from rival CRH, which was unchanged on the week.
- Northern Ireland drug company, Warner Chilcott, received a further bid approach, which pushed the share price ahead a further 4%.
- DCC rose by over 4% on the acquisition of Shell Direct UK. The acquisition will result in DCC becoming the largest independent oil marketing and distribution business in the British market.

Pacific Basin

- Asian equities had a good week with oil stocks amongst the best performers as crude oil futures rose to a new high. Reassuring economic data from the US and a better than expected Tankan in Japan also provided support.
- Japanese banks rose after Sumitomo Mitsui Financial Group revealed that it had repaid government funds.
- Anglo-Australian mining company, BHP Billiton, agreed to sell an extra $3.2 billion of iron-ore to four Chinese steel-makers. The stock rose 3.9% over the week.

Eurozone Bonds

- Stronger US economic numbers and a halt to the rise in oil prices led to some profit taking on bond markets. Prices of longer dated stock were marked down in response to the upward revision in US GDP and as traders took profits following a remarkably strong third quarter for bond prices.

Global Outlook

- Activity levels in the global economy remain high, although some leading indicators suggest a slowing in the pace of global expansion. The eurozone has been a laggard but is now back to its trend growth rate. Chinese growth remains very strong despite slowdowns in certain areas. A high and sustained oil price should lower growth but increase inflation.
- The Fed has commenced its well-flagged tightening cycle, beginning with three 0.25% increases to 1.75%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures are being closely watched by both eurozone and US central banks. The ECB still seems in 'wait and see' mode, although its rhetoric has become marginally more hawkish.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric, well-behaved inflation data and a sense that global growth momentum may have peaked.
- Strong profits data have validated last year's substantial 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 - although rising US short rates provide some offset to these positives. Terrorism worries and the rising price of oil had sapped the demand for equities, but market behaviour has been more positive in recent weeks.
- Our current stance is overweight equities versus the manager average and slightly underweight in bonds. The funds continue to have overweight sectoral positions in basic materials and financials and an underweight position in consumer staples, while general industrials have been moved to neutral from overweight. As regards geographical bias, the funds are overweight Europe and the Pacific region, more neutral on Japan and the UK, but remain underweight the US.

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