Weekly
investment news

EAGLE STAR

Issued on 26th October 2004

Global Overview

- It was a nervous week on most equity markets, with the US faring worst of the major markets.
- The oil price reached new record highs during the week, with a reported fall in US heating oil stocks for the winter helping to drive up prices. The knock-on effect was increased talk of slowing economic growth in the US, as consumers cut back on spending. This, in turn, could lead to slowing corporate earnings.
- Allied to the above was a marked shift downwards in the value of the US dollar against other major currencies. This was blamed on uncertainty regarding the outcome of the, now imminent, election and a possible oil price-induced economic slowdown. The foregoing, if they undermined the attractiveness of US equities, could make it still harder to fund the record ongoing deficit.
- Earnings' announcements failed to lift the market, despite some market heavyweights reporting good numbers or projecting good prospects for the future.
- Elsewhere in the world, European insurance stocks continued to be affected by the New York Attorney General, Eliot Spitzer's investigation into the insurance industry. In the UK, a surprise rise in September retail sales had little impact on the consensus view that official interest rates are close to peaking.
- The euro bond market continued to strengthen on the prospect of weaker global growth associated with higher oil prices.

Market	Index	Year to Date Return 31.12.03 to 22.10.04		1 Week Return 15.10.04 to 22.10.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.5	-2.0	-1.1	-2.4
US	NASDAQ	-4.4	-4.9	0.2	-1.1
Europe	FT/S&P Europe Ex. U.K.	4.0	4.0	0.4	0.4
Ireland	ISEQ	15.0	15.0	1.3	1.3
UK	FTSE 100	3.1	5.1	-0.2	-0.2
Japan	Topix	4.5	4.0	-1.3	-0.9
Hong Kong	Hang Seng	3.5	2.7	-0.3	-1.6
Australia	S&P/ASX 200	12.4	9.8	-0.3	-0.6
Bonds	Merrill Lynch Euro over 5 year Govt.	7.6	7.6	0.3	0.3

Equities

USA

- The US market finished the week down over 1% as uncertainty over the oil price, renewed dollar weakness, the ongoing Spitzer investigation, the presidential election and a mixed bag of corporate earnings all took their toll.
- Good numbers came from IBM and Texas Instruments earlier in the week, followed by Ebay on Thursday. However, poor results from JP Morgan Chase, a cautious outlook from Microsoft and tepid guidance from Amazon gave the other side of the story.
- Several other leading companies reporting results cited rising oil and other commodity prices as a reason for profit declines or lukewarm guidance going forward.
- Insurance stocks continued to suffer as Eliot Spitzer widened his investigation to include life and health insurance companies, as well as general insurers.

Europe

- Continental European markets rose slightly over the week as a number of market heavyweights produced good results. Among the good news stories were SAP +5.3% (strong Q3 numbers), Syngenta +5.8% (third lift in earnings' guidance this year) and Alcatel +10% (large new contract announcement).
- Among the big losers on the week was Ericsson, down 9% on the week, after it warned of slower market growth next year.
- In the UK, the insurance sector continued to struggle with the Spitzer investigation story. Further bad news came from Prudential, which announced a surprise £1bn rights issue to fund growth plans in the UK market and to boost its capital reserves.
- Banks and house-builders both suffered from the impact of the slowing housing market on their businesses. Banks were further affected by the surprise rise in September retail sales, which gave rise to speculation that the Bank of England might raise rates further than previously anticipated.

Ireland

- Shares in luxury goods manufacturer Waterford Wedgwood fell 30% following a profit warning. The company also said that it intends to bid for rival china maker, Royal Doulton.
- Rumours surfaced during the week of Ryanair's intention to bid for rival, Easyjet. This was rejected in typically robust fashion by a Ryanair spokesperson.

Pacific Basin

- Japanese equities were pressurised by rising oil prices and a declining US dollar.
- Shares in Hong Kong only declined slightly on the week, drawing comfort from a cooling Chinese economy.

Eurozone Bonds

- Concerns about slowing world economic growth, largely driven by the continuing rise in the price of oil, continued to boost world bond markets during the week.
- European bonds were also given support by the strengthening of the euro currency against the dollar. A stronger euro probably reduces the likelihood of eurozone interest rates rising.
- The Merrill Lynch Euro Gov't > 5 Year Index was up 0.3% on the week and is now up over 7.5% year-to-date.

Global Outlook

- Activity levels in the global economy remain high, although leading indicators foresee a slowing in the pace of global expansion. The high oil price is a "growth tax" for consuming nations but also boosts inflation, posing an undoubted dilemma for policymakers in the major economies.
- The Fed has raised rates from 1% to 1.75% this year and has promised more increases at a "measured pace". Employment growth is seen as the key test of the US economy's strength. This has been modest in past months and may temper the Fed somewhat. In the eurozone the ECB remains more upbeat on growth prospects than the market, but is still in "wait and see" mode regarding interest rates.
- Bond markets have taken some comfort from the stance of the Fed and the ECB, well-behaved inflation data and a sense that global growth momentum has peaked.
- Strong corporate profits have endorsed last year's equity market performance. This year markets have been far more subdued although the support of more favourable valuations in the non-US markets is seen in these markets' ongoing out-performance of the US. A steadying of growth sentiment and a more stable/falling oil price would allow equities to regain recent under-performance versus bonds.
- Our current stance is overweight equities versus the manager average and neutral bonds. Sector-wise the funds are overweight resources, basic industries and financials, while underweight some of the more defensive sectors, such as consumer staples. In geographical terms, the funds continue to be underweight the US, are neutral in the UK, the Pacific Region and Japan and overweight in Europe.

EAGLE STAR HOUSE FRASCATI ROAD BLACKROCK CO DUBLIN IRELAND TELEPHONE 01 283 1301 FAX 01 283 1578 WEBSITE www.eaglestarlife.ie