Weekly
investment news

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EAGLE STAR

Global Overview

- Most equity markets made solid gains last week, against a background of falling oil prices, positive US economic data and strong earnings growth.
- The US Federal Reserve raised interest rates by 0.25%, its fourth such move this year. The move was widely anticipated and seen as appropriate in the context of robust economic growth and an improving jobs market, as reported last week.
- Economic data on the week confirmed that US consumers are growing more confident about the economic outlook and spending more. Retail sales excluding autos rose 0.9% in October and the September figure was revised upwards from 0.6% to 0.8%. The University of Michigan confidence index jumped from 93.1 to 95.5, well ahead of expectations, as the rise in jobs numbers helped raise optimism about the future. There was also an improvement in the US trade balance.
- By contrast, economic indicators for the eurozone and Japan pointed to a slowdown in activity. In the eurozone, overall growth rose just 0.3% in Q3, with the two largest economies, Germany and France, growing a marginal 0.1% as exports were hit by the rising euro.
- Japan, which earlier in the year showed signs of emerging from its lengthy period of stagnation, slowed also to 0.1% in Q3, falling below expectations of 0.5% growth and raising concerns that the hoped for recovery may have petered out.
- Oil prices weakened as supply fears receded. The oil price declined over 4% on the week to around $47 per barrel and has fallen over 14% over the last three weeks.
- The dollar steadied somewhat in the second half of the week, having hit an all-time low of $1.30 against the euro on Wednesday. The improvement in the trade balance improved its tone somewhat and it closed close to $1.29 by the weekend.
- Eurozone bond prices moved higher in response to the slowdown in eurozone growth.

Market	Index	Year to Date Return 31.12.03 to 12.11.04		1 Week Return 05.11.04 to 12.11.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	6.5	3.2	1.5	1.2
US	NASDAQ	4.1	0.8	2.3	1.9
Europe	FT/S&P Europe Ex. U.K.	8.7	8.7	1.5	1.5
Ireland	ISEQ	22.5	22.5	2.4	2.4
UK	FTSE 100	7.1	8.0	1.1	1.0
Japan	Topix	5.8	4.4	-0.7	-0.9
Hong Kong	Hang Seng	9.6	6.1	2.2	1.8
Australia	S&P/ASX 200	17.1	15.8	0.5	1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	8.8	8.8	1.2	1.2

Equities

USA

- Expectations that improving US retail sales and consumer confidence would result in higher than forecast Q4 GDP growth caused renewed interest in cyclical stocks, with basic materials and technology stocks recording some of the best gains on the week.
- Demand for tech stocks was also lifted by the release of strong results from Dell and an optimistic forecast by its chief executive of future demand for computers. Dell shares rose 9% on Friday after the announcement.
- Dell's upbeat announcement was particularly welcomed after a disappointing statement from Cisco, the world's largest maker of computer networking equipment, that sales growth will slow in the current quarter. Cisco shares were down 3.6% on the week.

Europe

- Despite signs of a weakening economic outlook, European bourses were supported by strong corporate results and an easing in oil prices.
- Deutsche Telekom pleased investors with better than expected Q3 results and positive guidance for the year, together with an announcement of its first dividend in two years.
- Vodafone launched its third generation mobile phone service, setting itself a target of attracting 10 million new customers over the next 15 months.
- Swiss agro-chemicals maker, Syngenta, was boosted by prospects of higher sales of its fungicides in the US following news of the first outbreak of soya bean rust in North America.

Ireland

- Bank of Ireland released first half results, with an increase of 9% in earnings per share and a 12% higher interim dividend. It also announced the appointment of a new CEO for its Asset Management Services division. The shares rose 2.9% on the week.
- Drinks company C&C had a good week, gaining 5.7%, as venture capital company, BC Partners, which owns 34% of the company, decided to retain its holding, notwithstanding the expiry of its lock-in period.
- Elan added a further 6.8% on the week as it moved to improve its finances through buying back some existing debt and raising new debt to strengthen its liquidity. Additionally, Biogen Idec, which is partner to Elan in the development of MS drug, Antegren, announced better than expected late stage testing results on the drug.

Pacific Basin

- Most Asian equity indices posted gains last week. Another large drop in the oil price and some solid economic reports from the US boosted sentiment.
- The Bank of Korea surprised markets by cutting interest rates by 0.25% in response to a soggy domestic economy.
- Japanese equities were weak initially but finished the week on a strong note after the Q3 GDP report, though overall weaker than expected, showed stronger consumer spending and a lessening of deflation.

Eurozone Bonds

- Eurozone bond prices reversed their decline of the previous week and rose by over 1% as investors continued to increase holdings. News of a significant slowdown in Q3 economic growth, allied with a rise in the euro to a record high of $1.30 against the dollar on Wednesday, increased the attractions of eurozone bonds. Inflows continued at high levels, partly attributed to reports of Asian central bank buying.
- Bond prices attained new highs for the year, adding to already impressive year-to-date returns. The over 5 year eurozone government bond index has returned 8.8% so far in 2004.

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. Although oil has fallen 14% from the recent peak, it remains at levels which are negative for the global economy.
- The Fed has raised rates from 1% to 2% this year and has promised more increases at a 'measured pace'. Employment growth has been weaker than previous expansions, leading the Fed to be cautious. However, the latest jobs data have been more robust, leading to greater expectations of another rate hike in December. The ECB's "wait and see" stance will be bolstered by the eurozone's continued sluggishness and the strength of the euro versus the dollar.
- Equity gains this year have been more modest as profits momentum seems to have peaked. In addition, the surge in oil prices has been a strong negative. The recent firmer US jobs' report, plus further falls in oil prices, should continue to see equities out-perform bonds. Year-end factors and the decisive outcome to the US election could also make investors more positive about equities over coming weeks.
- 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. Lower eurozone growth prospects and potential for further dollar weakness act as support for eurozone bonds versus their US equivalents.
- Our current stance is overweight equities and bonds versus the manager average. Sector-wise the funds are overweight basic industries, financials and general industrials, while underweight some of the more defensive sectors, such as consumer staples. Resources are neutral from a prior overweight position. In geographical terms, the funds continue to be overweight in Europe, neutral in the UK, the Pacific Region and Japan and underweight in the US.