Weekly
investment news

EAGLE STAR

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Global Overview

- A dramatic fall in oil prices dominated investment markets last week. Oil prices fell by more than 14%. Prices declined due to a bigger than expected increase in US crude and petroleum inventories, helping to allay fears of tight fuel supplies over the winter.
- On currency markets, the US dollar continued its decline. It fell to $ 1.34 against the euro over the week. However, sterling was the biggest mover as the pound hit new highs against the US dollar and also gained versus the euro. Upbeat economic data after some recent downbeat numbers on the housing market helped to increase rate expectations and boost sterling.
- Economic data from the US was mixed. The ISM survey of US purchasing managers in the manufacturing sector was stronger than expected. However, the nonfarm payrolls report was weaker than expected. There were 112,000 new jobs created, lower than the 180,000 expected by the market.
- In Europe, the European Central Bank left interest rates on hold as expected. Speculation that interest rates will stay on hold for longer in Europe escalated due to continued euro strength.

Market	Index	Year to Date Return 31.12.03 to 03.12.04		1 Week Return 26.11.04 to 03.12.04	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	7.1	0.4	0.7	-0.2
US	NASDAQ	7.2	0.4	2.2	1.3
Europe	FT/S&P Europe Ex. U.K.	8.8	8.8	0.3	0.3
Ireland	ISEQ	24.1	24.1	1.7	1.7
UK	FTSE 100	6.1	8.0	0.1	1.5
Japan	Topix	6.4	4.6	1.8	1.0
Hong Kong	Hang Seng	13.0	5.7	2.3	1.4
Australia	S&P/ASX 200	19.4	15.7	0.7	-1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	9.7	9.7	0.1	0.1

Equities

USA

- News that oil inventories were better than expected led to a fall in the oil price, which supported equity markets in the US last week. The lower oil price gave airline stocks a welcome boost.
- Semiconductor stocks bounced following an upbeat mid-quarter trading statement from Intel. The world's leading chipmaker said that strong demand for personal computers underpinned the statement.
- Energy stocks under-performed due to the drop in the oil price.

Europe

- Worries about the impact of a strong euro on exporters limited the advance in European shares.
- Insurance stocks had a good week with life insurers up 6%. Microchip manufacturers performed well following a positive statement from US giant, Intel.
- In the UK, banks rose following forecasts of a soft landing for the UK housing market. BP and Shell were hit by declining oil prices. Hanson, the building materials group, declined following a ruling by a US court on asbestos claims against ABB.
- MMO2 announced that Matthew Key, finance director, will become chief executive of UK operations next year.

Ireland

- On the Irish market, Ryanair announced a major investment in Shannon on Tuesday. The stock advanced on positive comments from Michael O'Leary regarding an enormous amount of pent-up demand in European markets.
- The Irish market is significantly outperforming on a year to date basis. The index is by 24% mostly driven by financial stocks and Elan. The index is up 16% year to date excluding Elan.

Pacific Basin

- Asian equities rose last week after a large drop in the price of oil. Airlines were particularly strong as a result.
- Technology stocks also performed well after Intel increased its fourth quarter sales guidance.
- Standard & Poor's downgraded Taiwan's debt outlook because of its record budget deficit and ongoing tensions with China.
- In corporate news, China Aviation Oil – the monopoly importer of jet fuel for China's airlines – had its shares suspended from trading after it was revealed that the company had lost an estimated $550 million trading oil futures.

Eurozone Bonds

- EuEurozone bond prices moved marginally ahead during the week. The ECB kept interest rates on hold on Thursday as expected but its rhetoric indicated more concern over inflation than investors had expected. Bond prices fell sharply but more than recovered after Friday's weaker than forecast jobs' data.
- Eurozone economic data was muted with latest figures showing that eurozone economic sentiment and the business climate had weakened. Eurozone manufacturing growth suffered its sharpest monthly fall since September 2001.
- The Merrill Lynch over 5 year eurozone bond index gained 0.1% on the week, bringing the year-to- date rise in the index to just under 10%.

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. After last week's sharp fall oil is 22% off its peak price this year but is still a third higher than last year's average.
- 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. Nonetheless investors still expect a further 0.25% increase at next week's Fed meeting. As for the ECB, for now it seems that a strong euro will offset concerns over inflation allowing rates to be kept on hold at 2%.
- Equity gains this year have been more modest as profits' momentum seems to have peaked. The oil price has been a negative factor but recent sharp falls will help short-term sentiment. Strong liquidity conditions have also helped equity markets to remain in cyclical uptrends. Seasonal factors should be a support in and around year-end.
- 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 neutral bonds versus the manager average. Sector-wise the funds are overweight basic industries and financials, while underweight some of the more defensive sectors, such as consumer staples. Resources and general industrials are neutral from prior overweight positions. In geographical terms, the funds continue to be overweight Europe, and to a lesser extent the Pacific. Japan and the UK remain neutral and the US underweight.

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