Weekly
# investment news

*Issued on 21st February 2005*

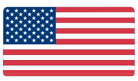
EAGLE STAR

## Global Overview

- Equity markets were flat last week as the Q4 earnings reporting season wound down and investors sought direction from economic indicators.
- The U.S. producer price index, i.e. wholesale inflation, was higher than expected in January and this led to an increase in interest rate expectations, which negatively impacted equities.
- On the positive side, U.S. housing starts in January were stronger than expected, as was the Philadelphia Federal Reserve's business confidence survey.
- Alan Greenspan, chairman of the Federal Reserve, gave his testimony to Congress on the state of the economy. He described current benchmark interest rates as "fairly low" leading observers to conclude that the pattern of 'measured pace' rate rises will continue.
- Oil prices rose 2.5% on the week, which was another negative for equities. Prices were driven upwards by warnings of a possible OPEC production cut and fears of lower inventory levels.
- There was disappointing news on the Japanese economy which contracted at an annual rate of 0.5% in the final quarter of 2004, the third straight quarter of contraction, officially putting the economy into recession. The news caused some weakness in the yen and a rise in Japanese bond prices.
- US and eurozone bond prices fell as interest rate expectations moved higher in response to the higher than expected rise in US producer prices and an unexpected increase in supply of French long-dated bonds

| Market | Index | Year to Date Return 31.12.04 to 18.02.05 | | 1 Week Return 11.02.05 to 18.02.05 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S & P 500 | -0.9 | 2.8 | -0.3 | -1.9 |
| US | NASDAQ | -5.4 | -1.9 | -0.9 | -2.4 |
| Europe | FT/S&P Europe Ex. U.K. | 4.7 | 4.7 | 0.1 | 0.1 |
| Ireland | ISEQ | 9.5 | 9.5 | 0.8 | 0.8 |
| UK | FTSE 100 | 5.1 | 7.7 | 0.3 | 0.1 |
| Japan | Topix | 1.5 | 2.1 | 0.5 | -1.1 |
| Hong Kong | Hang Seng | -1.0 | 2.3 | 1.8 | 0.2 |
| Australia | S&P/ASX 200 | 2.8 | 7.3 | -0.3 | -1.5 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 1.1 | 1.1 | -1.7 | -1.7 |

## Equities



### USA

- Drugs stocks put in some of the week's best performances when a US Food and Drug Administration committee recommended that painkilling drugs which had been withdrawn due to risks of cardiovascular damage be re-introduced for sale on grounds that their benefits outweigh the risk of heart damage. The committee recommended that strict safety warnings be put on the drugs' labels. Affected brands include Merck's Vioxx and Pfizer's Celebrex. Merck gained 11.6% on the week, while Pfizer added 6.6%.
- Energy stocks also had a good week as the price of oil rose again, while financials under-performed as a result of the increase in bond yields.

## Europe

- The Telecom sector performed poorly this week following broker downgrades of companies, such as France Telecom.
- Mining and natural resources stocks had a good week, helped by higher oil prices and better than expected results. The Norwegian government lowered its stake in the state owned oil company, Statoil, with a sale of 100m shares, bringing its holding in the company to just under 72%. Statoil's share price rose 2.6% on the week, despite the sale, reflecting the continued strength of demand for oil stocks.

## Ireland

- The Irish market continued its excellent run, adding another 0.8% to bring the year to date growth close to 10%. The market has attracted significant buying interest from investors keen to gain exposure to the robust Irish economy.
- Last week the focus turned again to Elan, which issued data from a 2-year monotherapy trial of its MS drug, Tysabri. The results were positive, showing a 42% reduction in the risk of disability progressing and a 67% reduction in clinical relapse rate. Elan was up 4.4% on the week.
- Drug distribution company, United Drug, announced the retirement of its chairman, Martin Rafferty, who has led the group for 20 years.

## Pacific Basin

- Asian equities posted mixed returns. Mining companies rose after BHP Billiton announced better than expected results. Energy companies also gained after the oil price rose again.
- Japanese GDP growth was less than expected, negatively impacting some domestically exposed sectors.

# Eurozone Bonds

- The unexpected rise in US producer prices had a negative impact on both US and eurozone bond prices and came at the end of a week which had already seen some profit-taking on eurozone bonds after the spectacular advances recorded so far this year. Supply factors also hit the eurozone market as the French government's issue of new 50 year stock (the first such issue by a european or US government issuer) triggered some revision of the extent of the shortage of longer dated stock. The Merrill Lynch Euro government over 5 year bond index fell 1.7% on the week.

# Global Outlook

- Activity in the global economy remains reasonably strong, although the forward indicators suggest some slowdown over coming months. The effects of last year's one-third rise in oil prices seem limited to date, but policymakers will remain vigilant during 2005.
- The Federal Reserve has raised rates to 2.5% and investors expect further 'measured pace' increases over the rest of the year. Following last week's high producer price data, this week's consumer price inflation data will be closely watched to see if the Fed might have to adjust its rate hike plans.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Recently it seems to be worrying again about rising property prices and generous financial liquidity conditions. Overall, it is still likely that low ECB rates and well-behaved eurozone inflation can remain supportive of eurozone bonds, notwithstanding the type of profit-taking correction witnessed last week.
- Equities have improved recently following a sluggish start to the year. While technology sector earnings have disappointed somewhat, other sectors have been better than expected. Corporate profit growth globally for 2005 is expected to be in the order of 10% and this is likely to underpin equity markets.
- Currently, the funds are neutral bonds and overweight equities versus the manager average. Sector-wise the funds remain overweight basic industries, resources and financials, while underweight some of the more defensive sectors, such as pharmaceuticals. In geographical terms, the funds continue to be neutral the UK and Japan, underweight the US, while overweight Europe and the Pacific Basin.