Weekly investmentnews

EAGLE STAR

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Global Overview

- Equity markets had a difficult week due to rising oil prices and concerns over the impact of higher US bond yields on equity valuations.
- US bond yields rose to eight month highs due to fears that commodity prices rises will eventually translate into higher inflation. Commodities such as copper and aluminium are at ten year highs.
- Oil prices rose after the International Energy Agency increased its estimate for global demand growth by 330,000 barrels a day, mainly due to continued strong demand from China.
- The US trade deficit grew by 4.5% to $58.3 billion in January from $55.7 billion in December and led to some pressure on the US dollar, which declined against most major currencies on the news, and aided the negative sentiment in the US bond market.
- The US dollar was also affected by comments from the Japanese prime minister regarding diversification of foreign currency reserves away from the US dollar. Mr. Koizumi told a parliamentary committee that he believed it was "necessary" to diversify the investment destination of foreign reserves.

Market	Index	Year to Date Return 31.12.04 to 11.03.05		1 Week Return 04.03.05 to 11.03.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.0	-0.3	-1.8	-3.4
US	NASDAQ	-6.2	-5.5	-1.4	-3.0
Europe	FT/S&P Europe Ex. U.K.	4.5	4.5	-1.4	-1.4
Ireland	ISEQ	-1.8	-1.8	-2.9	-2.9
UK	FTSE 100	3.5	4.8	-1.1	-2.6
Japan	Topix	4.4	3.7	0.7	-0.4
Hong Kong	Hang Seng	-2.4	-2.0	1.2	-0.5
Australia	S&P/ASX 200	3.8	5.9	-0.4	-1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.3	0.3	-0.7	-0.7

Equities

USA

- Equity markets declined in the US last week due to rising oil prices and renewed unease over rising interest rates. Technology stocks outperformed while energy stocks underperformed on the back of some profit taking.
- Intel, the semiconductor giant, boosted its revenue and margin guidance for the first quarter.
- McDonalds, the fast food chain, issued a disappointing sales update on Tuesday. Delta Air Lines fell 11.5% after it said that it expected a significant loss in 2005 due to high fuel prices and low margins.
- Texas Instruments, the world's largest maker of semiconductors for mobile phones, issued a disappointing profits forecast.

Europe

- European markets declined last week. Utilities were among the worst performers as US bond yields rose to seven month highs. Steel and mining stocks also underperformed while food and drug retailers outperformed.
- Adidas-Salomon, the German sporting goods maker, performed well when it announced that it will begin a share buy-back program. The company also raised its dividend by 30%.
- In the UK, mining stocks declined after BHP Billiton confirmed that it had appointed Deutsche Bank to advise on the possible purchase of a stake in WMC Resources. The Australian company is already the subject of a hostile takeover bid from its competitor Xstrata.

Ireland

- On the Irish market, AIB announced that Eugene Sheehy will become the company's new Chief Executive.
- Grafton Group released a strong set of results with pre-tax profits rising by 29%. Grafton said the performance was due to good market conditions and also due to benefits from acquisitions made in 2003. The takeover of rival Heiton was also positive for the company.

Pacific Basin

- Asian equities posted mixed returns last week. Energy stocks performed well after the oil price climbed higher.
- Mining stocks also rose as the prices of several key commodities rose and BHP Billiton agreed to buy out WMC Resources for A$9.2 billion.
- In Japan, Sony surprised observers by appointing a non-Japanese Chief Executive, a rare occurrence in the country.

Eurozone Bonds

- US bond yields reached eight month highs last week. Talk of foreign exchange diversification from Japan's prime minister led to fears that Japan may start selling its massive US Treasury holdings. The Japanese Ministry of Finance quickly assured the market that there was no change in policy.
- Strong industrial production in Germany was negative for eurozone government bonds. A further rise in oil and commodity prices was also unhelpful. The bank of England's decision to keep interest rates on hold was positive for UK bonds. The Merrill Lynch over 5 year government bond index fell 0.7% 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 the continued high level of 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, consistent with a year end rate of 3.75%. Inflation data will remain central to the Fed's policy actions over coming months.
- 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 over the past few weeks.
- Equity market returns have been quite varied so far this year. The US market remains sluggish, continuing to lag better performing European and Asian markets. Within most markets the technology sector has been an under-performer for a number of months. For 2005, global profit growth is expected to be around 10%, providing an underpinning to 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. In geographical terms, the funds continue to be neutral the UK and Japan, underweight the US, while overweight Europe and the Pacific Basin.

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