Weekly

investment news

EAGLE STAR

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Global Overview

- Equity markets rallied last week primarily due to the release of benign inflation data from the US which led to speculation that the US Federal Reserve might ease back on interest rate hikes.
- Declining oil prices were also supportive of equities with prices finishing the week at $49 per barrel due to higher than expected inventory levels in the US.
- There were some weaker signals on the US economy during the week with the Conference Boards survey of leading economic indicators dropping for a fourth month in a row. US manufacturing data were also weaker than expected. In the UK, the market was boosted by a sharp rise in retail sales.
- On currency markets, the US dollar gained 0.5% against the euro on the week to $1.2550, its highest level for seven months. The currency continues to be underpinned by the interest rate differential between the US and the eurozone. Weak eurozone economic data is also contributing to euro weakness.

Market	Index	Year to Date Return 31.12.04 to 20.05.05		1 Week Return 13.05.05 to 20.05.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.9	6.0	3.1	3.7
US	NASDAQ	-5.9	1.6	3.5	4.2
Europe	FT/S&P Europe Ex. U.K.	4.3	4.3	1.6	1.6
Ireland	ISEQ	-0.7	-0.7	2.1	2.1
UK	FTSE 100	3.3	6.2	1.8	1.0
Japan	Topix	-1.7	0.5	-0.4	-0.7
Hong Kong	Hang Seng	-3.6	3.9	-1.1	-0.4
Australia	S&P/ASX 200	-0.2	3.9	-1.1	-0.4
Bonds	Merrill Lynch Euro over 5 year Govt.	4.6	4.6	-0.2	-0.2

Equities

USA

- Equity markets in the US rose sharply on the back of mixed economic news and an increase in mergers and acquisitions activity.
- On the corporate front, Home Depot reported higher than expected quarterly profits. The stock rose over 8%.
- Hewlett Packard also reported higher profits in another good week for technology. Research firm Gartner increased their revenue forecast for the semiconductor industry for this year. The NASDAQ index rose 3.5% over the week.
- Mergers and acquisitions activity included, UPS, the express shipper, agreeing to buy Overnite Transportation and America West merging with US Airways.

Europe

- It was a good week on European markets with technology stocks doing well as Merrill Lynch upgraded the sector. Other outperforming sectors included basic resources and construction and materials, while the food and beverage and utilities were the weakest.
- Electrolux, the Swedish consumer goods company, rose 9% on the week when it announced that it has agreed to a $2.1 billion take over of Maytag, its US rival.

Europe (continued)

- Pharmaceutical stocks had a mixed week with Schering falling 7% due to disappointing results from an experimental cancer drug. However, Roche rose after data on its Avastin cancer treatment was well received.

Ireland

- The ISEQ index increased by 2.1% with strong returns from Readymix, Anglo Irish Bank and Eircom.
- CRH put in a strong performance following upbeat comments from its chief executive, Liam O'Mahony. Demand in the US this year has so far exceeded expectations.

Pacific Basin

- Asian exporters such as Samsung Electronics moved higher last week as a benign inflation report in the US eased fears that interest rates would have to be raised at a faster rate.
- Hong Kong stocks fell after authorities there made changes to the territory's currency peg – the changes had the effect of lifting local interest rates, negatively impacting shares of banks and property companies.

Eurozone Bonds

- Bond prices fell marginally on the week, affected by profit taking and the upturn in equity markets. However, price falls were limited due to continued safe haven buying.
- Government bonds markets continue to benefit from concerns over volatility in corporate bonds following the downgrading of GM and Ford debt.

Global Outlook

- The global economy has continued to slow from last year's robust pace, with much of the recent data disappointing expectations. Policymakers remain vigilant regarding the effects of high oil prices on growth and inflation.
- We have said for some time that inflation data will remain central to the Fed's policy actions over coming months. Although US rate expectations have eased back in recent weeks, markets still expect the Fed to raise its rates by a further 0.75% to 3.75% by year end.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. Recent weak data has tempered its earlier, more hawkish rhetoric. Long term eurozone interest rates are at 60 year lows after the recent strong performance from eurozone bond markets. Bonds are therefore slightly stretched at the moment but remain supported by low inflation and low short rates.
- Equity market returns have been quite varied so far this year; with the European markets stronger than most. The US market remains the most sluggish of the large markets and technology has been among the weakest sectors. For 2005, global profit growth is still expected to be around 10%, although investors are now attaching less certainty to that prediction.
- Currently, the funds are close to neutral in bonds and neutral to slightly underweight equities versus the manager average. Sector-wise the funds' exposure to cyclical sectors such as basic industries and resources has been reduced while some defensive sectors have been increased. In geographical terms, the funds continue to be neutral the UK and Japan and close to neutral in the Pacific Basin, underweight the US, while overweight Europe.

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