Weekly investment news

Issued on 29th August 2005

EAGLE STAR

Global Overview

- Equity markets declined last week as investor concerns regarding the impact of rising oil prices on economic growth persisted.
- Oil prices dominated the headlines, hitting record levels of $68 per barrel. Oil prices are now a third higher then they were three months ago.
- On currency markets, the euro benefited from better sentiment on the outlook for the eurozone. Portfolio flows data also showed strong cash inflows into Europe. The euro firmed to $1.23 against the US dollar.
- Alan Greenspan, chairman of the US Federal Reserve, eased some investor fears by saying that the US economy is proving resilient to higher oil prices. However, he warned that the housing boom in the US is an economic imbalance.
- On economic news, consumer confidence data in the US was worse than expected. A disappointing home sales report also raised concerns about consumer spending and the outlook for the economy in the US. In Germany, the Ifo business confidence index fell in August, disappointing investors.

Market	Index	Year to Date Return 31.12.04 to 26.08.05		1 Week Return 19.08.05 to 26.08.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-0.6	9.4	-1.2	-2.3
US	NASDAQ	-2.5	7.3	-0.7	-1.8
Europe	FT/S&P Europe Ex. U.K.	11.6	11.6	-2.6	-2.6
Ireland	ISEQ	7.2	7.2	-0.5	-0.5
UK	FTSE 100	8.6	12.6	-1.6	-2.3
Japan	Topix	10.7	13.6	1.8	1.1
Hong Kong	Hang Seng	5.3	15.9	-0.4	-1.5
Australia	S&P/ASX 200	9.9	17.1	-0.2	-0.6
Bonds	Merrill Lynch Euro over 5 year Govt.	7.5	7.5	0.5	0.5

Equities

USA

- US markets fell back due to weaker economic data and high oil prices.
- Pharmaceutical company, Merck, said it would settle lawsuits associated with its painkiller, Vioxx.
- Housebuilders underperformed following warnings on the housing boom in the US from Alan Greenspan, chairman of the US Federal Reserve.
- Oil stocks outperformed on the back on higher oil prices.

Europe

- European equities finished the week in negative territory across the board, with UK equities marginally outperforming their Continental peers.
- The Healthcare sector was the week's worst performer as sentiment turned somewhat negative on the back of a successful law suit against the US pharmaceutical company Merck.
- The telecommunications, technology and insurance sectors were also relatively weak. Extremely poor weather and a spate of floods in Switzerland and throughout Central Europe weighed heavily on the insurance sector. Outperforming sectors included the travel and leisure, financial services and personal & household goods.

Ireland

- On the home front the ISEQ index declined by 0.5%, taking its cue from world trends.
- There was busy trading on CRH and Kerry which are due to report earnings results.

Pacific Basin

- Asia equities were little changed last week. Shares of energy companies rose as the price of oil remained stubbornly high.
- Corporate activity was evident in Australia where transport company Toll Holdings bid Aus $4.9 billion for rival Patrick Corp.
- Steel makers fell after Chinese company Baoshan Steel cut prices by more than expected; Australian company Bluescope Steel reported that its earnings had been negatively impacted by higher raw material costs – a factor in BHP Billiton reporting surging earnings growth.

Eurozone Bonds

- Eurozone bonds added a further 0.5% this week, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- Bonds rallied on the back of an industry report from Germany which indicated deteriorating business confidence. The Ifo business confidence index had been expected to rise in August.

Global Outlook

- Policymakers remain vigilant regarding the effects of high oil prices on growth and inflation. The negative impacts have been limited but persistently higher oil prices of over $60 will only heighten their sensitivity.
- To date, inflation data remains central to the Fed's policy actions over coming months. Fed guidance remains that rates will continue to rise at a measured pace, with markets anticipating rates to rise a further 0.5% at least, to over 4% by year end.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. While bonds are still expensive on an historical basis they remain supported by relatively sluggish eurozone growth, low inflation and pension fund liability matching.
- For 2005, global profit growth is still expected to be in the low double digits. Equities remain supported by strong corporate earnings, healthy balance sheets and favourable valuations relative to bonds and cash. Upside may be constrained by headwinds of rising US rates and the impact of high oil prices on the global economy.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sector-wise the funds have a more neutral bias, with a small overweight in basic industries and resources. In geographical terms, the funds are overweight in Europe and the Pacific Basin, slightly overweight in Japan and underweight in the UK and particularly in the US.