Weekly
investment news
Issued on 26th September 2005
EAGLE STAR

Global Overview

- Japan led the way in the world's equity markets for the second week in succession as the feel-good factor in the wake of the clear-cut victory for PM Koizumi in the general election continued.
- The Federal Reserve duly raised US interest rates on Tuesday by a further 0.25% to 3.75%. The accompanying statement, always closely watched, continued to speak of further increases at a 'measured pace'. Meanwhile, consumer confidence numbers in Germany fell sharply in the latest ZEW survey.
- With Hurricane Rita building in the Gulf of Mexico all week, the focus was very much back on oil prices, which rose more than 4% on the week. However, prices eased a little on Friday when it appeared that the hurricane would miss the refining hub around Houston.
- On currency markets, the US dollar gained more than 1% against both the euro and sterling. The euro fell sharply at the start of the week in the wake of the German election, while the US interest rate rise on Tuesday continued to widen the gap between US and eurozone rates.

Market	Index	Year to Date Return 31.12.04 to 23.09.05		1 Week Return 16.09.05 to 23.09.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	0.3	12.7	-1.8	-0.6
US	NASDAQ	-2.7	9.3	-2.0	-0.8
Europe	FT/S&P Europe Ex. U.K.	15.5	15.5	-0.7	-0.7
Ireland	ISEQ	7.4	7.4	-0.2	-0.2
UK	FTSE 100	12.5	17.2	0.1	-0.1
Japan	Topix	18.0	21.0	2.1	2.6
Hong Kong	Hang Seng	6.4	19.8	1.1	2.4
Australia	S&P/ASX 200	12.6	22.5	0.2	0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	8.7	8.7	0.9	0.9

Equities

USA

- The US market had to contend with the imminent arrival of Hurricane Rita on the Gulf Coast and the eleventh successive interest rate rise from the Federal Reserve.
- On the corporate front, Avon Products fell 16% on the week as it cut its 2005 earnings forecast, while Estee Lauder fell over 12% after forecasting a fall in its first quarter profits.
- Shares in Alcoa, the world's largest aluminium producer fell over 9% on the week as it said higher costs and lower prices would weigh on its profits.
- Oracle fell nearly 7% on the week as it reported that second quarter earnings are likely to be towards the lower end of expectations due to flat demand for key products.

Europe

- The German market led European indices downwards as it struggled with the likely economic consequences of the general election outcome.
- That said, one of the week's biggest risers was Volkswagen, which moved to a three-year high after rising 13% on the week. Rumours that US billionaire, Kirk Kerkorian, was building a stake gave the shares a big lift.
- In merger news, South African insurer Old Mutual had a $6 billion bid for Skandia, the Swedish financial services group, turned down by a divided board. Shareholders will ultimately decide the success or failure of the bid.
- In a relatively quiet week in the UK, GlaxoSmithKline rose nearly 3% to a three-year high. Analysts noted that there is growing confidence among investors that the company's pipeline is poised to deliver.

Ireland

- On the home front the ISEQ index fell fractionally. Elan, and its US partner, Biogen, announced that they plan to submit new safety information to the FDA in their efforts to bring Tysabri back to the market.
- The Jurys Doyle hotel group saga rumbled on with developer Sean Dunne continuing to build his stake in the company towards the 30% level. It is thought he may be looking to launch a full take-over bid in conjunction with a private equity group.

Pacific Basin

- Japanese equities enjoyed another strong week. The Nikkei 225 Index broke through the 13,000 barrier for the first time since June 2001, while the Tokyo Stock Exchange had its busiest ever trading day on Wednesday since its foundation 50 years ago.
- In corporate news, Sony announced a restructuring plan, involving 10,000 job cuts, about 7% of its workforce. It also plans to dispose of ¥120 billion of real estate and other non-core assets by fiscal 2007. The stock fell 5% in the aftermath of the announcement.

Eurozone Bonds

- Eurozone bonds rose just less than 1% on the week, as measured by the Merrill Lynch Eurozone Government > 5 year Index, with the yield on the 10-year German fund going briefly below the 3% mark for the first time.
- Fears that higher energy prices could dampen consumer demand, combined with the uncertainty caused by the inconclusive outcome to the German general election, were key factors in the week's strong performance.

Global Outlook

- The effects of high oil prices on growth and inflation remain centre-stage for policymakers. The negative impacts have been limited to date but persistently higher oil prices of over $60 will heighten this sensitivity.
- Inflation data remain central to the Fed's policy actions, as they confirmed last week by raising rates a further 0.25%. Investors once again expect rates to end 2005 at 4%, compared to 3.75% currently.
- The ECB remains on hold with rates at 2% and inflation projections which are still benign. The focus remains on any second-round impacts of higher oil prices. So far the ECB has stated that these remain very mild. 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 higher US rates and the impact of high oil prices on the global economy.
- Currently, the funds are slightly overweight in bonds and 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.