Weekly
investment news

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EAGLE STAR

Global Overview

- Interest rate speculation dominated markets last week with comments from officials on both sides of the Atlantic. A number of US Federal Reserve officials warned that US interest rates will continue to rise due to inflation pressures.
- In Europe, the ECB left rates unchanged at 2%. However, Jean-Claude Trichet, the president of the ECB, also cited inflation as a concern that would require "strong vigilance".
- Equity markets worldwide receded sharply over the week as a result of the comments despite positive economic data from the US.
- The US employment outlook continued to strengthen with the release of encouraging September employment numbers. Manufacturing data from the US was also positive.
- The oil price was down 7% on the week to $61 per barrel. The US government reported a fall in year on year demand for petrol, which drove oil prices lower.
- On currency markets, the euro rose slightly against the US dollar to $1.22 putting a halt to the dollar rally of recent weeks.

Market	Index	Year to Date Return 31.12.04 to 07.10.05		1 Week Return 23.09.05 to 07.10.05	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	-1.3	10.4	-2.7	-3.4
US	NASDAQ	-3.9	7.5	-2.9	-3.6
Europe	FT/S&P Europe Ex. U.K.	17.1	17.1	-1.1	-1.1
Ireland	ISEQ	10.1	10.1	-0.2	-0.2
UK	FTSE 100	11.4	14.5	-2.1	-3.1
Japan	Topix	19.4	20.2	-2.8	-3.8
Hong Kong	Hang Seng	4.3	17.0	-3.8	-4.4
Australia	S&P/ASX 200	9.6	18.5	-4.3	-5.9
Bonds	Merrill Lynch Euro over 5 year Govt.	7.7	7.7	-0.2	-0.2

Equities

USA

- US equity markets declined last week due to comments from Federal Reserve officials indicating that interest rates in the US will continue to rise.
- Energy stocks were the worst performers due to a sharp decline in the oil price. Construction and engineering stocks also suffered due to higher interest rate expectations.
- On the corporate front, ADC Telecommunications and Lexmark International, the printer maker, issued profit warnings. The stocks fell 16% and 26% respectively.
- Eastman Kodak fell 3% and Texas Instruments fell 9% due to downgrades from Goldman Sachs. Guess, the clothing company, rose 18% on the week due to a sharp increase in sales growth.

Europe

- European markets ended the week in the red despite hitting a three and a half year high on Tuesday. Like their US counterparts energy stocks led the way down as oil prices plunged.
- Parmalat, the Italian food group, returned to the market on Thursday following two years in bankruptcy administration. The stock fell 17% as speculation that it would be subject to a takeover bid dissipated.
- Dutch telecoms group KPN rose 6% as a result of rumours of a takeover bid from Spanish company, Telefonica. KPN completed the takeover of Dutch mobile carrier Telfort earlier in the week.
- On the UK market, the energy and mining sectors underperformed. Telecoms group, Cable & Wireless warned of sharp margin falls in its UK retail business. The share finished the week 14% weaker.

Ireland

- The Irish market declined marginally last week outperforming its international peers. Eircom shares surged by 10% due to a newspaper report claiming that Swisscom has approached Eircom in recent weeks with a view to bidding 3 billion for the company. Eircom subsequently denied that it is in talks with Swisscom.
- C&C rose 5% on the week due to the continued success of the Magners brand. C&C has stated that earnings for the current year would be higher than previously stated.

Pacific Basin

- Asian equities were knocked by assertions that the US will continue on its path of interest rate rises. Hong Kong was weighed down by the rate sensitive property sector ,while the Australian market has its biggest one day percentage fall in three years on Wednesday.
- In Japan, there was bad news on the Japanese economy with the Tankan survey on business sentiment coming in worst than expected. The banking sector was hit when Mitsubishi Financial, the world's biggest bank by assets, fell 4%.

Eurozone Bonds

- Eurozone bonds fell 0.2% on the week, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- Some stronger than expected economic releases from the US and comments from Federal Reserve officials from the US regarding higher interest rates affected Eurozone and US bonds. Concerns about inflation from the European Central Bank also supported the market view that interest rates in Europe could rise sooner than previously expected.

Global Outlook

- Policymakers remain focused on the growth and inflation effects of high oil prices and how economies are responding to the impacts of higher interest rates in countries like the US and UK.
- For the Federal Reserve, inflation data are central to its policy of gradually raising rates. Investors now expect a further 0.5% increase in rates to 4.25% between now and year end.
- The picture in the eurozone is different. While the ECB again seems uncomfortable with rates at 2% and is concerned about second-round effects of oil prices on overall inflation, at the same time it says these effects are mild and that rates are currently appropriate. Eurozone bonds remain expensive historically but still remain supported by relatively sluggish growth, well-behaved inflation and pension fund liability matching.
- Global equity markets have performed strongly so far this year. Equities remain supported by a strong earnings' background and favourable valuations relative to bonds and cash. Higher US interest rates and oil prices may constrain the upside from current levels.
- Currently, the funds are slightly overweight in bonds while equity positions are close to neutral versus the manager average. Sectorwise, the funds are overweight financials while other sector stances are quite small; a previous slight overweight in resources and basics has been cut back with resources now a slight underweight. Geographically the funds remain overweight in Europe and the Pacific Basin, slightly overweight in Japan and underweight the UK and, to a greater extent, the US.

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