Weekly investment news

30th January 2006

EAGLE STAR

Global Overview

- Equities enjoyed a strong week with improving economic data in Japan and Europe, some big moves on the merger & acquisition front and good earnings numbers from some market heavyweights in the US reporting season.
- The earnings season continued in the US and was more positive than last week. Of the 48% of S&P 500 companies that have reported so far, 64% have beaten expectations, 17% matched forecasts and 18% disappointed.
- There was an unexpectedly weak GDP number for the fourth quarter in the US of 1.1%. This was its weakest level in three years and sharply below the 4.1% rate of the previous quarter. This was the first release of this figure, which may yet be revised upward in the coming weeks.
- In Japan, there are rising hopes that the deflation era may be coming to an end. Core consumer prices rose 0.1% for the second month in a row, the first time since 1998 that successive months showed a rise.
- In Germany, the IFO Institute's index of business confidence reached its best level for nearly six years. This led to further speculation on the likely course of eurozone interest rates in the coming months.
- The euro finished the week virtually unchanged against the dollar at $1.21.

Market	Index	Year to Date Return 31.12.05 to 27.01.06		1 Week Return 20.01.06 to 27.01.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S & P 500	2.8	0.4	1.8	1.6
US	NASDAQ	4.5	2.0	2.5	2.3
Europe	FT/S&P Europe Ex. U.K.	3.5	3.5	3.0	3.0
Ireland	ISEQ	3.0	3.0	2.2	2.2
UK	FTSE 100	3.0	3.7	2.0	2.3
Japan	Topix	2.5	0.6	4.1	2.2
Hong Kong	Hang Seng	5.9	3.3	0.6	0.4
Australia	S&P/ASX 200	3.3	3.2	1.3	1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.6	-1.6	-1.2	-1.2

Equities

USA

- US markets enjoyed a much stronger week as corporate earnings news came in thick and fast and generally strong. Among the leading companies to report good numbers were Caterpillar (+10% on the week), Procter & Gamble and Microsoft.
- The two-month takeover battle for heart device maker, Guidant, ended in victory for Boston Scientific in a $27 billion deal. Johnson & Johnson had been the other interested party.
- Walt Disney agreed the $7 billion acquisition of Pixar, the animation studio that made highly-regarded movies such as Toy Story and The Incredibles.
- In the auto sector, GM unveiled its biggest loss since 1992, losing nearly $5 billion in the fourth quarter alone, while Ford announced plans to shed 25,000 jobs and close seven plants.

Europe

- Steel stocks were in the headlines in Europe as Mittal, the world's biggest steelmaker, launched an €18.6 billion offer for rival Arcelor. If the bid is successful, Mittal will sell Dofasco, the Canadian steel company, to Germany's ThyssenKrupp for about $4.7 billion.
- This story knocked on into the share price of Corus, the Anglo-Dutch steelmaker, which rose 17% to a three and a half year high.
- Other big winners on the week were Alstom (+13%), Hypo Real Estate (+16%), Philips (+10%) after strong fourth quarter results and SAP (+13%) on optimism about sales of software licences.
- In the UK, the FTSE 100 Index rose 2%, lifted by buoyant life assurers and another good performance from the mining sector.

Ireland

- The Irish market rose just over 2% on the week with the banks leading the way. Both AIB and Bank of Ireland were up in the region of 5%.
- Ryanair announced that it is to cut fares by 9%, allow passengers to check in on-line and that it will charge for bags checked in to the hold. The stock rose just over 3% on the week.

Pacific Basin

- After a rocky start to the week, the Japanese market surged over the following four days to close at a new five-year high. The market closed at levels seen before the start of the Livedoor story, which sparked a rush of selling that closed the market early on one day.
- Other Pacific Basin markets also made good progress on the week, helped by the world-wide surge in equities and a good week for mining stocks.

Eurozone Bonds

- Yields on government bonds around the world reached their highest levels so far this year. Eurozone bonds did not escape the general malaise, falling 1.2%, as measured by the Merrill Lynch Eurozone Government > 5 year Index.
- Stronger economic news out of the eurozone, together with increased bond issuance and surging equity markets, caused bonds to weaken.

Global Outlook

- Global growth continues to be healthy despite high oil prices and higher global interest rates. Inflation vigilance should remain high among the major central banks during 2006.
- Investors expect US rates to peak at slightly less than 4.75%, from current levels of 4.25%. This expectation depends on the strength of activity and inflation data over the next few months.
- Investors remain on watch for stronger data that may sway the ECB to further rate increases. In the background is still moderate inflation and pension fund liability matching which should continue to offer some support to longer-dated bonds.
- Equity markets remain supported by a strong earnings' background and favourable valuations relative to bonds and cash; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets.
- Currently, the funds are slightly underweight in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight general industrials and financials while underweight some of the defensive areas like telecoms. Other sectors are broadly neutral. Geographically the funds are underweight Ireland, the UK and North America; Europe and the Pacific Basin remain overweight.