Weekly investment news

20th March 2006

EAGLE STAR

Global Overview

Strong week for global equities

Equity markets made strong gains last week, fuelled by continued mergers and acquisitions activity.

US interest rate expectations moderate

The Beige Book of economic activity indicated that the US economy is expanding at a steady pace and that wage inflation is under control. Expectations that interest rates might move above 5% receded as a result of the data.

Oil prices bounce back

Oil prices bounced back to $63 per barrel following a 5% decline in the previous week. Concerns regarding the sustainability of crude oil supplies underpinned the price rise.

Dollar weakness

The US dollar fell 2.3% against the euro (to $1.22) over the week, due to falling US interest rate expectations. The currency was also hit by news that the US trade deficit reached a record high of 7% of GDP.

Market	Index	Year to Date Return 31.12.05 to 17.03.06		1 Week Return 10.03.06 to 17.03.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	NASDAQ	4.6	1.5	2.0	-0.5
Europe	FT/S&P Europe Ex. U.K.	8.4	8.4	1.5	1.5
Ireland	ISEQ	8.3	8.3	1.2	1.2
UK	FTSE 100	6.8	5.1	1.5	0.8
Japan	Topix	0.9	-0.4	1.0	1.2
Hong Kong	Hang Seng	6.2	3.1	2.3	-0.1
Australia	S&P/ASX 200	4.4	0.7	1.7	-1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-2.7	-2.7	0.0	0.0

Equities

USA

Overview

Strong earnings results from a number of the top US investment banks helped US markets record upbeat returns last week.

Key Movers

Goldman Sachs – The investment bank delivered first-quarter net profits which were 50% ahead of analysts' forecasts. The stock was up 7% on the week.

Lehman Brothers – The bank delivered a 24% jump in quarterly earnings.

Oil related stocks – ExxonMobil and Chevron rose on the back of a bounce in the oil price.

Europe

Overview

Mergers & acquisitions activity continues to drive European markets forward.

Key Movers

Schering – The German pharmaceutical group's share price soared 24% when it rejected a share offer from Merck.

BMW – The carmaker benefited from broker upgrades following upbeat guidance reports.

L'Oreal – The French cosmetics giant agreed a £652 million takeover deal for The Body Shop.

Vodafone - Japan's Softbank agreed to buy Vodafone Japan for $15.5 billion. The Vodafone share price rose 5% over the week.

Ireland

Economic News

Buoyant consumer spending continued in Ireland with retail sales figures showing a year-on-year increase of 9% to the end of January.

Key Movers

Grafton – Construction company Grafton delivered another set of excellent results with earnings growth of over 20%.

Anglo Irish Bank – The stock had a good week on the back of broker upgrades.

Asia Pacific

Resource stocks support the Australian market

Resource stocks continued to move higher in Australia with BHP Billiton, the world's biggest mining group, rising 2.3% over the week.

Hong Kong property stocks rise

Property stocks in Hong Kong did well due to interest rate developments in the US.

Bonds

Eurozone bonds tread water

There was a rally in US bonds last week as expectations of rising US interest rates waned. However, Eurozone bonds were unchanged as they continue to price in expectations of gradual interest rate rises in the eurozone.

Global Outlook

- Global growth continues to be healthy despite high oil prices and higher global interest rates. Consensus expectations are that global GDP will expand by 3.5% in 2006, similar to last year's rates.
- Investors expect official US rates to peak close to 5% from the current 4.5% level. The strength of economic activity and inflation data over the next few months will be key in this regard.
- Following the most recent ECB rate hike to 2.5%, investors expect rates to pass the 3% mark by year end. Moderate inflation and pension fund liability matching should continue to offer some support to longer-dated bonds.
- Equity markets remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets. The gradual ending of super-easy money policies in Japan - announced last week- may cause some further jitters in both equity and bond markets.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight industrials and financials while underweight some of the defensive areas, like utilities. Geographically the funds are underweight Ireland and North America and neutral in the UK. Europe, Japan and the Pacific Basin remain overweight.