Weekly
investment news

12th June 2006

EAGLE STAR

Global Overview

Equity markets remain nervous
Global equity markets receded sharply on the week amid fears that global economic growth could be curtailed by rising interest rates.

Comments from Ben Bernanke on Inflation
Comments from the Federal Reserve Chairman, Ben Bernanke, on Monday regarding the need to be vigilant against inflation led to a sharp increase in the market's expectations for US interest rates and talks of a further rise in August.

Japanese Stocks decline
Japanese stocks suffered sharp losses on the week with the Topix dropping nearly 7%.

Dollar Strengthened
The US Dollar was strong against all major currencies, with the €/$ falling 2.3% to 1.26 due to increased expectations that the Federal Reserve will increase interest rates further.

Oil Price
Oil prices fell marginally on the week following the death of the al-Qaeda leader, al-Zarqawi, in Iraq and due to the easing of tensions between the US and Iran.

Market	Index	Year to Date Return 31.12.05 to 09.06.06		1 Week Return 02.06.06 to 09.06.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	0.3	-6.1	-2.8	-0.6
US	NASDAQ	-3.2	-9.4	-3.8	-1.6
Europe	FT/S&P Europe Ex. U.K.	-0.1	-0.1	-3.5	-3.5
Ireland	ISEQ	-0.8	-0.8	-4.9	-4.9
UK	FTSE 100	0.7	1.0	-1.9	-1.9
Japan	Topix	-9.2	-12.0	-6.7	-6.5
Hong Kong	Hang Seng	5.1	-1.8	-1.8	0.4
Australia	S&P/ASX 200	4.3	-0.3	-2.2	-0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-4.2	-4.2	0.1	0.1

Equities

USA

Overview
Wall Street fell sharply on the week but the stronger dollar helped to limit the decline in euro terms.

Key Movers
Pfizer – The US drug maker has received first-round bids of about $15bn for its over-the-counter medicines and consumer product business.

Chipmakers – Chipmakers in the US fell on the week as one of the major brokerage houses revised down its sales forecast for Intel and Advanced Micro Devices, citing the possibility of a price war. Intel added to this possibility as it announced that it will cut prices by 60% to gain market share.

Europe

Overview

European markets also came under heavy fire this weak with France and Germany both down nearly 4%.

Key Movers

Ferrovial – A consortium led by the Spanish construction firm, won the battle against a rival consortium led by Goldman Sachs to buy BAA, the UK airports' operator.

Mysis – Shares in Mysis, the banking and healthcare software group, rose to their highest level in two months after the company announced that it was considering an offer for the group.

Mining Stocks – Mining stocks helped to support the FTSE 100 index as metal prices stabilised. Shares in Anglo American (4.9%) and Xstrata (4.3%) both finished the week in positive territory.

Ireland

Elan – Tysabri, Elan's MS drug, received marketing approval from the FDA ahead of schedule. However, the approval has many limitations. The stock fell 15% on the week.

Asia Pacific

Overview

Asian markets fell strongly on the week with Japanese stocks undergoing the biggest one day losses in a year.

Cathay Pacific – Cathay Pacific, the Hong Kong airline, is set to take over its smaller rival, Dragonair, in a bid to gain wider access to the tightly-regulated Chinese market.

Bonds

Eurozone bonds were flat on the week with the Merrill Lynch over 5 year index up 0.1%. The main focus in the bond market was on the inversion of the US yield curve which has historically been interpreted as a sign of an economic slowdown.

Global Outlook

- Growth expectations remain at high levels with global GDP now expected to expand by 3.7% in 2006, slightly above last year's figure of 3.6%. The major central banks are focused on cyclical inflation pressures and strong commodity prices.
- Investors are keenly focused on the Fed meeting at the end of this month to see whether rates will change from the current 5% level. The probabilities assigned to a further hike or a pause in rate moves have jumped around over the past few weeks, as markets try to gauge the impact of new economic data on the debate within the Fed.
- Despite moderate inflation in the eurozone, rising short rates and less than expected demand from pension funds have kept bond prices under pressure so far this year. The ECB raised rates as forecast to 2.75% last week with investors still broadly expecting two more rate increases over the course of the year.
- Equity markets still 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 or produce the type of corrections we have seen during the past few weeks. The gradual ending of super-easy money policies in Japan continues to deserve attention because of its potential negative impact on various asset classes.
- Currently, the funds are close to neutral in bonds and equities versus the manager average. Sectorwise, positions are currently pretty balanced as well. Geographically the funds are underweight Ireland and Japan, and more neutral in the other regions with the European overweight having been re-deployed into the US.

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