Weekly investment news

3rd July 2006

EAGLE STAR

Global Overview

Equity markets bounce
Equity markets made solid gains last week as expected. The Federal Reserve announced a rise in interest rates by 0.25% to 5.25%. The statement accompanying the rise was interpreted as being slightly more dovish leading to hopes that the next rise in US rates may be the last in the current cycle. This allowed investors to buy back positions in oversold markets, pushing all the major indices higher.

US economic growth moderating
The statement pointed to the fact that US economic growth is moderating from its strong pace earlier in the year. This cooling is due to the lagged effect of higher interest rates and oil prices.

Inflation pressures
The Fed also indicated that slowing growth is likely to help limit inflation pressures. There is also some evidence of cooling in the US housing market where fears of a bubble have been building.

Commodity markets
Oil prices headed towards $74 per barrel due to a combination of increased demand for gasoline in the US and concerns over Iran's nuclear ambitions and the Atlantic hurricane season.

Currency markets
The US dollar tumbled against other major currencies last week due to the softer tone from the Fed; with the euro rising from $1.25 to $1.28 over the week.

Market	Index	Year to Date Return 31.12.05 to 30.06.06		1 Week Return 23.06.06 to 30.06.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.8	-5.8	2.1	0.0
US	NASDAQ	-1.5	-8.8	2.4	0.3
Europe	FT/S&P Europe Ex. U.K.	3.8	3.8	3.1	3.1
Ireland	ISEQ	2.1	2.1	2.9	2.9
UK	FTSE 100	3.8	3.3	2.5	1.9
Japan	Topix	-3.8	-8.2	2.7	2.2
Hong Kong	Hang Seng	9.4	1.0	2.9	0.9
Australia	S&P/ASX 200	6.5	-0.3	2.2	1.5
Bonds	Merrill Lynch Euro over 5 year Govt.	-4.9	-4.9	0.4	0.4

Equities

USA

Overview

The US market gained over 2% on the week as investors digested a policy statement from the Fed which was slightly more positive than some had expected.

Key Movers

Warner & EMI – Warner shares rose driven by merger speculation after UK record label EMI said they were discussing a possible merger.

Phelps Dodge – The US-based copper producer announced that it is to purchase two Canadian nickel companies to create the worlds largest nickel miner. The announcement had a positive impact on mining stocks worldwide.

Nike – Nike announced a slide in quarterly earnings which it attributed to higher raw material costs and the expense of world cup advertising.

Europe

Overview

European markets advanced strongly on the back of the rally in the US and better economic data.

Key Movers

Industrials – Industrial stocks were the best performers of the week after the release of strong German manufacturing data.

Bayer – Chemicals group Bayer rose 8.5% on the week following broker upgrades.

UK mining stocks – In the UK, mining stocks, such as Xstrata, had a strong week as metal prices rose and Citigroup forecast further consolidation in the sector.

Ireland

Anglo Irish Bank – The share price was up over 10% after NCB stockbrokers forecast that commercial property investment is likely to grow further in 2006. NCB placed a "buy" recommendation on the stock.

Share buyback – FBD bought back 10% of issued share capital last week. The company said the decision was taken to maximize its capital for the benefit of shareholders.

Asia Pacific

Overview

Asian stocks rallied last week as interest rate concerns settled down. In Hong Kong, property related stocks did well as a result.

Japanese exporters – Exporters such as Sony and Canon, the digital camera maker, rebounded in the latter half of the week.

Australian mining stocks – Mining stocks in the Australian market had a good week on the back of consolidation in the US.

Bonds

Bond prices rise after US rate hike – Bond prices on both sides of the Atlantic rose as the US Federal Reserve softened its tone a little, encouraging investors to believe that short rates are closer to peaking in the US. The bank was also slightly less hawkish on inflation. The Merrill Lynch over 5 year index was up 0.4% on the week.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast 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.
- The Fed raised rates, as expected, to 5.25% last week. 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. Currently, investors expect another 0.25% by year end, with rates peaking at that level.
- 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% recently and investors continue to expect two more 0.25% 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 remain a concern. 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 overweight 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 recently been re-deployed into the US.

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