Weekly investment news

8th August 2006

EAGLE STAR

Global Overview

Economic data dominates markets

Investors paid close attention to economic data last week and its likely impact on the US Federal Reserve interest rate decision on Tuesday 8th August. US employment data was weaker than expected and this lifted expectations of a halt in interest rate rises. However, concerns over slowing economic growth gathered momentum as the week progressed.

Monetary tightening

The ECB raised interest rates as anticipated to 3% last week. The Bank of England announced a surprise 0.25% rise in interest rates to 4.75% on Thursday. Markets had not been expecting the move and stocks declined as a result.

Earnings results

Eighty per cent of S&P 500 companies have reported second quarter earnings. Of these 71% delivered better than expected results.

Oil prices rise

Oil prices rose $3 to $75 per barrel over the week as worries about supply disruption in the Gulf of Mexico due to hurricanes intensified. Continued fighting between Israel and Hizbollah also underpinned prices.

Currencies

The US dollar recorded a 1% decline against the euro on the week due to the increased expectations that US interest rates would not rise any further. The €/$ rose to 1.29 on the week. Sterling rose 1.4% against the euro on the week supported by the interest rate rise on Thursday.

Market	Index	Year to Date Return 31.12.05 to 04.08.06		1 Week Return 28.07.06 to 04.08.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.5	-5.9	0.1	-1.1
US	NASDAQ	-5.5	-13.2	-0.4	-1.6
Europe	FT/S&P Europe Ex. U.K.	5.2	5.2	0.2	0.2
Ireland	ISEQ	4.8	4.8	2.9	2.9
UK	FTSE 100	4.8	6.8	-1.4	-0.2
Japan	Topix	-4.7	-9.7	0.8	0.2
Hong Kong	Hang Seng	13.5	3.9	-0.4	-1.6
Australia	S&P/ASX 200	4.1	-0.3	0.0	-1.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-3.2	-3.2	0.3	0.3

Equities

USA

Overview

Wall Street managed to finish the week in marginally positive territory as investors swayed between optimism regarding the peak in interest rates rises and worries about slowing economic growth.

Key Movers

Procter & Gamble – The consumer products company reported a 36% jump in profits. The stock rose 4% on the week and was boosted by news of lower margins at its main rival Unilever.

Starbucks – The coffee retailer reported a 16% rise in profits but its shares fell 11% as sales growth dipped.

Europe

Overview

European markets had a volatile week due to a strong flow of second-quarter earnings and interest rate factors.

Key Movers

Investment banks – A number of investment banks delivered better than expected earnings results due to favourable financial conditions. BNP Paribas was up 3% and Societe Generale added 4% over the week. ABN Amro slid 5% on the week as strong earnings were attributed to once off items.

Insurers – It was a good week for insurers with Allianz, Axa and Munich Re all reporting good results.

Philips – The Dutch electronics company sold 80% of its semiconductor division to a private equity consortium.

Ireland

Overview

The Irish market outperformed its international counterparts due to strong performance across the board from financials on the back of excellent results from AIB.

AIB – Exceptional results from AIB drove the share price 6% higher over the week. The group has raised its earnings growth target to over 20%.

Asia Pacific

Japanese market – The Japanese market was volatile due to fears that exports would be affected by slowing US economic growth. The market picked up as the week progressed due to upbeat quarterly earnings results.

Australian interest rates rise – The Australian market was flat on the week as the market shrugged off an expected 0.25% interest rate rise to 6%.

Bonds

Eurozone bonds finished the week in positive territory, the Merrill Lynch over 5 year index rising 0.3% on the week.

Bonds performed well early in the week due to rising expectations that interest rates hikes are coming to an end in the US. However, monetary tightening by both the European Central Bank and the Bank of England caused weakness on bond markets later in the week.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand by 4.0% in 2006, slightly above last year's figure of 3.7%. The major central banks have been focused all year on cyclical inflation pressures and strong commodity prices and short rates globally have risen further.
- The Fed meets today, Tuesday 8th, with investors firmly focused on a pause in rates with the likelihood of some small additional tightening before year end, and rates peaking for this cycle at close to 5.5%. The Fed is likely to make any pause contingent on a slowing in the growth rate and no further acceleration in inflation.
- The ECB raised rates to 3% last week as fully expected by the market. Expectations of future hikes haven't changed much since then. Investors still expect rates to end this year between 3.25% and 3.5%. Bond prices have taken some comfort of late from well-behaved underlying inflation data and the thought that growth might peak in 2006.
- 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 continue to be a concern and periods of volatility are likely. The gradual ending of super-easy money policies in Japan deserves attention because of its potential negative impact on various asset classes.
- Currently, the funds are slightly overweight bonds and equities versus the manager average. Sectorwise, positions are currently pretty balanced, although financials are once again overweight. Geographically the funds remain underweight Ireland and more neutral in the other regions.

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