Weekly
investment news
21st August 2006
EAGLE STAR

Global Overview

Benign inflation data in the US drives markets forward

Bond and equity markets both enjoyed a strong boost last week from a series of economic numbers in the US which encouraged the view that the Federal Reserve was justified in pausing in its policy of raising US interest rates.

Relevant data

Foremost among the week's releases were July consumer and producer price figures, which were at or below market forecasts. There were also indications of a slowdown in the housing market and in industrial output figures.

Eurozone strength

Gross domestic product within the eurozone increased by 0.9% in the second quarter, the strongest quarterly growth rate for six years, driven by improved performances from the German and French economies.

Rollercoaster week for oil

Oil prices fell sharply on the week as the ceasefire in southern Lebanon held and OPEC announced that it had no intention of cutting production for the rest of the year. Crude prices fell around 5% on the week, to their lowest levels in two months.

Currencies

The euro was stronger against the other major currencies during the week in the face of weaker economic data in both the UK and the US. The euro gained against the dollar with the € / $ rate rising from 1.2730 to 1.2800 as a result.

Market	Index	Year to Date Return 31.12.05 to 18.08.06		1 Week Return 11.08.06 to 18.08.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	4.3	-3.6	2.8	2.2
US	NASDAQ	-1.9	-9.4	5.2	4.5
Europe	FT/S&P Europe Ex. U.K.	7.0	7.0	3.0	3.0
Ireland	ISEQ	5.4	5.4	2.2	2.2
UK	FTSE 100	5.1	6.2	1.4	0.3
Japan	Topix	-0.5	-6.4	4.0	3.8
Hong Kong	Hang Seng	16.5	7.4	0.5	-0.1
Australia	S&P/ASX 200	6.1	1.3	2.1	0.4
Bonds	Merrill Lynch Euro over 5 year Govt.	-3.0	-3.0	0.8	0.8

Equities

USA

Overview

The US markets were strong on the week, led by a gain of more than 5% in the technology-heavy NASDAQ Index.

Key Movers

Hewlett Packard – HP added over 7% on the week and is up nearly 25% year-to-date. It reported quarterly earnings figures that beat expectations and announced a $6 billion share buyback. It also gave bullish guidance for the next quarter.

Others – Among other strong risers in the technology sector were Microsoft (increasing its share buyback programme by $16 billion), Advanced Micro Devices and Intel.

Dell – On the other side of the coin, Dell reported a 42% year-on-year drop in second-quarter earnings and also announced that the SEC had been investigating it for the past year over accounting issues. The stock is down around 26% this year.

Europe

Overview

European markets followed the US upwards, with the technology sector also enjoying a strong week.

Key Movers

Tech Stocks – Among the week's big gainers in this sector were Alcatel (+10%), Ericsson (+9%) and Nokia (+8%). Chipmaker STMicroelectronics added 10% and Infineon rose 6%.

UBS – The Swiss investment bank reported a 47% rise in net profit for the second quarter, easily beating market expectations. The stock gained over 7% on the week.

Ireland

Financials – The Irish market rose over 2%, with the financials particularly strong. Anglo Irish Bank added nearly 5%, Bank of Ireland rose over 4% and AIB gained over 3% on the week.

Ryanair – As heightened security measures at UK airports persisted, Ryanair lost 1% on the week.

Asia Pacific

Japanese market – The Japanese market gained 4% on the week, supported by lower oil prices. The Nikkei Index broke through the 16,000 barrier for the first time since May on Wednesday.

Australia – It was a good week for the Australian market. Rising commodity prices helped the big mining stocks while, on the mergers and acquisition front, Coles Myer, the country's second largest retailer, gained 12% on Thursday following reports that it had been approached by a possible buyer.

Bonds

Bond markets received a significant boost during the week with the release of weaker-than-expected inflation data in the US. Eurozone bonds rallied on the news, though running out of steam a little later in the week. The Merrill Lynch > 5 year Index rose 0.8% on 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 paused in its policy of raising US interest rates at its recent meeting, leaving them unchanged at 5.25%. Investors still see some modest additional tightening before year end, with rates peaking for this cycle at close to 5.5%. This expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation.
- The ECB recently increased rates to 3%, 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 close to neutral on both bonds and equities versus the manager average. Sectorwise, positions are pretty balanced at the moment. Geographically the funds remain underweight Ireland and more neutral in the other regions.