Weekly
investment news

6th November 2006

EAGLE STAR

Global Overview

Equity markets record gains
Global equity markets generally retreated last week as investor expectations for US interest rates shifted according to multiple data releases.

Eurozone interest rates
The European Central Bank left eurozone rates unchanged on Wednesday but signalled that a 0.25% rise was likely in December.

Economic News
The US unemployment rate fell to its lowest level (4.4%) for more than five years in August, while average hourly earnings rose by 0.4%. Earlier in the week, there had been weak manufacturing and consumer confidence figures from the Chicago Purchasing Managers' Index and the Conference Board respectively.

Oil prices
Oil prices rebounded towards the end of the week on some concerns about safety in Nigeria's Niger Delta oilfield. Despite this, the oil price was down 3% on the week.

Market	Index	Year to Date Return 31.12.05 to 03.11.06		1 Week Return 27.10.06 to 03.11.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	9.3	1.8	-1.0	-0.8
US	NASDAQ	5.7	-1.6	-0.8	-0.6
Europe	FT/S&P Europe Ex. U.K.	14.7	14.7	-0.1	-0.1
Ireland	ISEQ	16.0	16.0	-0.5	-0.5
UK	FTSE 100	9.4	12.7	-0.2	0.2
Japan	Topix	-1.9	-8.8	-1.9	-2.2
Hong Kong	Hang Seng	26.0	17.0	2.5	2.7
Australia	S&P/ASX 200	14.0	11.4	1.4	1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.6	-0.6	0.4	0.4

Equities

USA

Overview
US markets retreated a little over the week, despite broadly strong third-quarter earnings numbers.

Key Movers
MasterCard – The credit card company reported an 82% jump in third-quarter earnings, well above estimates. The share rose over 21% on the week.

Wal-Mart – The retail giant's stock lost 6.5% on the week after it said that disappointing clothing demand and disruption from store remodelling projects had pulled same-store sales below its lowered forecast.

Europe

Banking Sector – Leading European banks released numbers during last week with Commerzbank adding nearly 4% on good results, while UBS fell over 5% on a worse-than-expected fall in net profit.

DaimlerChrysler – The carmaker added over 5% on the week, largely on speculation that it would soon announce plans for its struggling US Chrysler unit.

British Airways – BA fell nearly 3% after it said that second-quarter profit unexpectedly fell as travel demand slowed after a plot to blow up planes was uncovered.

Ireland

C&C – The beverage group lost nearly 5% on the week, still leaving the stock up nearly 130% on the year-to-date.

Elan – After the previous week's 5% fall on disappointing results, Elan fell another 4%.

Asia Pacific

Japan – The Topix fell 1.9% as the market fretted over the uncertainty surrounding the US economy. Exporting stocks were particularly sensitive to this issue.

Elsewhere – Hong Kong, in marked contrast, set a series of all-time highs during the week, while records were also broken in Australia, India and Indonesia.

Bonds

Eurozone bonds rose a little on the week, the Merrill Lynch > 5 year Index posting a 0.4% rise. Weaker economic data in the US earlier in the week sent bond prices on both sides of the Atlantic up, before some weakness at the end of the week moderated the gains.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand robustly again in 2006, although leading indicators suggest some growth moderation in 2007. The major central banks continue to focus on cyclical inflation pressures stemming from strong growth and high oil prices.
- As expected, the Fed left rates unchanged at 5.25% at its meeting last month. Investors now believe that interest rates have peaked for this cycle. However, this expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation. Market expectations for early rate cuts may have to be pared back further, given the cautious Fed comments in this regard.
- As expected, the ECB recently raised rates to 3.25% and confirmed market expectations of a further rise to 3.5% before year end. It gave little indication of its plans for 2007 although the tone of ECB rhetoric continues to be hawkish overall. Bonds had performed well on the back of better inflation data and some indications that global growth might peak this year, but may suffer a little from ongoing ECB hawkishness.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; tighter liquidity conditions from higher interest rates continue to be a concern and periods of volatility are likely. The sharp fall in energy prices from their summer peaks may help underpin positive sentiment in the near term. 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 in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight industrials but other positions continue to be pretty balanced. Geographically, the funds are overweight in Europe, underweight Ireland and the US and more neutral in the other regions.