Weekly
investment news

4th December 2006

EAGLE STAR

Global Overview

US dollar continues to dominate markets

The US dollar fell a further 1.8% against the euro to $1.33 last week. The slide in the currency over the past two weeks has brought the decline in the US dollar against the euro year to date to 12.7% and to 15.2% against sterling.

Expectations of a cut in US interest rates rise

The US Institute of Supply Management's national manufacturing index was weaker than expected helping to underpin expectations of a cut in US interest rates next year. The futures market is now indicating an 80% probability of a rate cut by the end of March 2007.

Eurozone economic news

There were mixed economic numbers released from Europe last week. The overall eurozone manufacturing index slipped in November but German manufacturing rose over the month.

Oil prices

Oil prices were helped by dollar weakness and moved towards $63 per barrel. OPEC is still hinting at production cuts later this month which is likely to underpin prices going forward.

Market	Index	Year to Date Return 31.12.05 to 01.12.06		1 Week Return 27.11.06 to 01.12.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	11.9	-0.6	-0.3	-2.1
US	NASDAQ	9.4	-2.8	-1.9	-3.6
Europe	FT/S&P Europe Ex. U.K.	13.3	13.3	-2.5	-2.5
Ireland	ISEQ	17.1	17.1	-2.8	-2.8
UK	FTSE 100	7.2	9.6	-1.6	-1.0
Japan	Topix	-2.7	-11.5	4.3	3.1
Hong Kong	Hang Seng	25.6	11.3	-3.0	-4.6
Australia	S&P/ASX 200	13.9	9.1	-0.5	-0.7
Bonds	Merrill Lynch Euro over 5 year Govt.	0.6	0.6	0.4	0.4

Equities

USA

Overview

US stocks failed to make headway last week as a sharp decline in the dollar continued to unsettle investors and lower returns to European investors.

Key Movers

Walmart – Shares in the retailer fell 5% when it announced its first drop in sales since 1996. It also said that expected sales in December would rise by no more than 1%. Competitor JC Penny also released disappointing sales numbers.

Energy stocks – The energy sector did well on the back of a rise in oil prices. Exxon Mobil and Chevron stock both rose 6% as a result.

Pfizer – The drug company saw its share price rise 3% when it announced an earnings upgrade and said that it is to cut 20% of its sales force.

Europe

Overview

European markets had another difficult week as the strength of the euro damaged export stocks in particular.

Key Movers

Auto sector – DaimlerChrysler and Renault declined a further 5% last week due to concerns regarding their US dollar earnings.

Nokia – The Finnish mobile phone giant cut its two year profitability outlook and fell 7% over the week. Negative broker comments also affected the share price.

UK Market – The FTSE 100 had a difficult week with the strength of sterling against the dollar also affecting UK stocks. Carnival, the cruise operator, fell back due to a downgrade from Merrill Lynch.

Ireland

Overview

The Irish market followed its global counterparts and had a dismal week with price declines across all the large caps. AIB and Irish Life were down around 4% with Bank of Ireland and Anglo Irish Bank down over 2%.

Key Movers

Elan – Elan was down over 5% on the week due in part to strong results from competitor Schering on its MS product, Bataseron.

Asia Pacific

Japan – The Japanese market outperformed both its regional and global counterparts with a strong 4.3% return over the week. The market was helped by economic data which showed a 1.6% rise in industrial production.

Hong Kong – Hong Kong stocks suffered due to the decline in the US dollar and worries about the slowdown in US economic growth.

Bonds

Eurozone bond prices recorded gains last week benefiting from continued euro strength against the dollar. Additional evidence of a softening in the US economy helped underpin global bond prices. The Merrill Lynch >5 year bond index rose by 0.4% over the week.

Global Outlook

- Growth expectations remain at high levels 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 last meeting in October. 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. In recent weeks investors have begun to factor in rate cuts in 2007, but Fed comments have continued to be quite cautious in that regard.
- The ECB is fully expected to raise rates to 3.5% at its meeting this week. So far it has given little indication of its plans for 2007 although the tone of ECB rhetoric continues to be hawkish overall. The release of new ECB economic forecasts this week will be an important guide to interest rates decisions over the coming months. Bonds have performed well on the back of better inflation data, some indications that global growth might peak this year and the peaking of US short rates.
- 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. In the recent period, positive sentiment towards equities has been boosted by the sharp fall in energy prices from the summer peak and the surge in merger & acquisition activity.
- 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 and the Pacific, underweight Ireland and the US and more neutral in the other regions.