Weekly investment news

15th January 2007

EAGLE STAR

Global Overview

Economic news

Most global equity markets increased last week supported by stronger US economic data and expectations of a good earnings reporting season. However, investors have scaled back their expectations of US interest rate cuts in 2007.

Commodity prices

Oil prices continued to fall last week. Oil dropped by 5% to finish the week at $53 due to the milder than expected winter and continued expectations of a global economic slowdown. Copper prices regained some of their losses rising 2.6% on the week following profit taking in recent months.

Interest Rates

Both the European Central Bank and the Bank of England met to consider interest rates last week. The upshot was an unexpected rise of 0.25% in the UK, to 5.25%, in an attempt to control inflationary pressures in the UK. The European Central Bank held rates constant at 3.5% but Jean Claude Trichet, President of the ECB, indicated that they may rise again in March.

Currency markets

Following the surprise interest rate hike in the UK, sterling rose to a six and a half year high on Thursday. The €/£ finished the week at 0.66. The dollar rose 0.6% on the week against the euro to 1.29. This rise followed stronger than expected US retail sales in December.

Market	Index	Year to Date Return 31.12.06 to 12.01.07		1 Week Return 05.01.07 to 12.01.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	0.9	3.0	1.5	2.1
US	NASDAQ	3.6	5.8	2.8	3.5
Europe	FT/S&P Europe Ex. U.K.	1.5	1.5	1.3	1.3
Ireland	ISEQ	-0.8	-0.8	-1.0	-1.0
UK	FTSE 100	0.3	2.4	0.3	2.4
Japan	Topix	0.3	1.2	0.6	-0.1
Hong Kong	Hang Seng	-1.8	0.0	-3.0	-2.5
Australia	S&P/ASX 200	-0.6	0.9	1.2	2.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.7	-0.7	-0.7	-0.7

Equities

USA

Overview

US stocks increased last week following rises in the technology sector, following Apple's launch of the iPhone, and the airline sector, which was helped by the decline in energy prices.

Key Movers

Airline Sector – Airline stocks benefited by the lower oil prices this week. United Airlines parent UAL rose by almost 10% while US Airways Group rose 6%, helped by an announcement that it had raised its offer for bankrupt Delta Airlines.

Intel – The technology giant's share price rose 4.5% over the week following analysts reports that Intel had increased its market share over technology rival AMD.

Europe

Key Movers

SAP – The software group's share price dropped by almost 8% to $39, its biggest one day drop in over four years, following disappointing licence sales figures.

Energy stocks – The continuing fall in oil price resulted in a 3% drop in the Repsol YPF share price and a 1% drop in Total.

Sodexho Alliance – Following strong first quarter sales figures, Sodexho Alliance's share price rose by 11% on the week.

Ireland

Ryanair – The airline's share price rose by over 2% on the back of lower oil prices.

C&C – The share price of C&C dropped by 9% following a report which suggested that seasonality will affect consumption of their Magners cider brand more than anticipated.

Asia Pacific

Australia – In Sydney, the market increased by 1% due to a recovery in the price of base metals.

China – The Chinese growth story continues apace with the capitalisation of China's equity markets exceeding $1,000bn for the first time. The value of the Chinese renminbi also overtook the Hong Kong dollar for the first time in 13 years.

Bonds

The release of positive US retail sales data impacted negatively on bond prices. Bond prices in the UK dropped late last week following the Bank of England's surprise interest rate rise and fears of further rate rises later this year. The Merrill Lynch >5 year bond index lost 0.7% over the week.

Global Outlook

- Leading indicators continue to suggest some growth moderation in 2007 from the robust levels of 2006. The major central banks will likely remain focused on the cyclical inflation pressures stemming from strong growth.
- As expected, the Fed left rates unchanged at 5.25% at its meeting in mid-December. In recent months investors have begun to factor in a modest easing in rates during the second half of 2007, but stronger data and Fed comments have eroded confidence in that view.
- The ECB, as fully expected, left rates unchanged at its meeting last week. Bond markets have been focused on the hawkish tone of ECB rhetoric. While a further 0.25% rate increase is fully expected in March, speculation has begun to increase that rates might eventually go beyond 4%, keeping bond investors nervous.
- 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 surge in merger & acquisition activity in Europe and the US.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight industrials and underweight oil and gas 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 other regions.