



22nd January 2007

Global Overview

US economic strength

There was upbeat economic data released in the US last week with housing, employment and manufacturing data unexpectedly strong. Consumer confidence data also reached its highest level in three years suggesting that the US will achieve a soft landing and delaying the prospect of interest rate cuts.

Commodity prices

Oil prices continued to fall last week due to warm winter weather conditions and lack of movement from OPEC regarding production cuts. Saudi Arabia ruled out an additional OPEC meeting to discuss the issue. Prices are now down 15% since the start of the year to \$51 per barrel.

Interest Rates

The Bank of Japan kept interest rates on hold at 0.25% on Thursday. Markets had been expecting a hike of 0.25% but speculation that the bank would bow to political pressure and leave rates unchanged proved correct.

Currency markets

On currency markets, the yen weakened against other major currencies as the Bank of Japan kept rates on hold. Sterling strengthened against the euro and the US dollar due to data showing UK inflation had risen to 3% in December. This is well above the Bank of England 2% target rate. As a result, expectations of further interest rate hikes supported the currency.

| Market | Index | Year to Date Return 31.12.06 to 19.01.07 | | 1 Week Return 12.01.07 to 19.01.07 | |
|-----------|--------------------------------------|---------------------------------------------|-----------|---------------------------------------|-----------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S&P 500 | 0.9 | 2.6 | 0.0 | -0.4 |
| US | NASDAQ | 1.5 | 3.2 | -2.1 | -2.4 |
| Europe | FT/S&P Europe Ex. U.K. | 2.1 | 2.1 | 0.6 | 0.6 |
| Ireland | ISEQ | -0.3 | -0.3 | 0.5 | 0.5 |
| UK | FTSE 100 | 0.3 | 2.9 | 0.0 | 0.5 |
| Japan | Topix | 2.0 | 1.8 | 1.7 | 0.6 |
| Hong Kong | Hang Seng | 1.8 | 3.2 | 3.6 | 3.2 |
| Australia | S&P/ASX 200 | 0.1 | 1.9 | 0.6 | 1.0 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | -0.4 | -0.4 | 0.3 | 0.3 |

Equities



USA

Overview

It was a volatile week for US markets with technology stocks in particular suffering a setback, on poor earnings results, following an impressive start to the year.

Key Movers

Technology stocks – Intel set the tone for the technology sector when it announced that gross margins would narrow in 2007. The share price was down over 6% on the week. Apple also delivered a poor outlook while Cisco declined amid broker downgrades.

Motorola – The mobile phone maker saw its share price rise despite a decline in earnings. Markets regarded an announcement that it is to cut 3,500 jobs as positive for the stock going forward.



Europe

Overview

Mergers and acquisitions activity underpinned European markets last week.

Key Movers

Banking sector – SEB, the Swedish bank, rallied 8% due to speculation about a possible merger with Nordea. Commerzbank rose on rumours that Merrill Lynch or UBS may make a bid for the bank.

Bid speculation – Vinci, France's largest construction company and Deutsche Post, the German state bank, also enjoyed strong returns on the back of bid speculation.



Ireland

Dragon Oil – The oil company rose 13% on the week when it delivered an upbeat trading update.

Elan – The share price fell 4% last week on rumours that Wyeth are to pull out of joint Alzheimer's drug trials they are conducting with Elan. Wyeth subsequently denied the rumours.



Asia Pacific

Japan – The Japanese market recorded positive returns over the week supported by the decision from the Bank of Japan to leave interest rates on hold. The returns to Eurozone investors were lowered due to yen weakness.

Hong Kong – The Hong Kong market was the star performer on markets last week rising 3.6% as China mania continued unabated.

Bonds

The release of positive US economic data impacted negatively on bond prices on both sides of the Atlantic early in the week. However, prices recovered as the week progressed. The Merrill Lynch >5 year bond index rose 0.3% 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 two weeks ago. 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.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star.
Advice should always be sought from an appropriately qualified professional.