Weekly
investment news

19th February 2007

EAGLE STAR

Global Overview

Solid returns on equity markets
Equity markets advanced last week on the back of a positive assessment of the US economy by the Federal Reserve Chairman, Ben Bernanke. Mr. Bernanke said that economic growth in the US is recovering and inflation is moderating.

Japanese economic data improves
There was better than expected economic data from Japan last week indicating that the economy expanded strongly in the fourth quarter. This resulted in speculation that the Bank of Japan might implement an interest rate hike.

Currency markets
The Japanese yen strengthened due to stronger economic data. The US dollar weakened against the euro as stronger eurozone growth data contrasted with weak industrial production and housing data from the US.

Commodity prices
Oil prices had a volatile week falling initially on an improved weather outlook for North America. Concerns regarding supply disruptions, due to attacks by militants in Nigeria, supported prices as the week progressed.

Market	Index	Year to Date Return 31.12.06 to 16.02.07		1 Week Return 09.02.07 to 16.02.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.6	3.0	1.2	0.2
US	NASDAQ	3.4	3.8	1.5	0.5
Europe	FT/S&P Europe Ex. U.K.	4.4	4.4	0.4	0.4
Ireland	ISEQ	5.4	5.4	2.0	2.0
UK	FTSE 100	3.2	3.3	0.6	-0.5
Japan	Topix	5.6	5.5	1.7	2.7
Hong Kong	Hang Seng	3.0	3.0	-0.5	-1.5
Australia	S&P/ASX 200	5.0	5.2	0.4	0.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.1	-0.1	0.4	0.4

Global Equities

USA

Overview
US markets performed well last week as upbeat comments from Ben Bernanke regarding the US economy helped support both equities and bonds.

Key Movers
Daimler Chrysler – Shares in the auto maker rose almost 15% when it announced that it is no longer committed to its US division and that there will be job cuts ahead. The stock was also supported by unconfirmed reports that General Motors is in talks to buy Chrysler's US unit.

Mergers & Acquisitions – Alcoa, the aluminium group, rose 6% on speculation that both BHP Billiton and Rio Tinto are preparing separate takeover approaches. Anheuser-Busch rose 2% on rumours that it is holding merger talks with InBev of Belgium.

Europe

Key Movers

Michelin – The tyre maker saw its share price jump 16% on news that improvements in its cost structure would lead to savings of over €1.5 billion by 2010.

M&A – Banco Bilbao Vizcaya Argentaria, Spain's second-largest bank, announced it had taken over Compass Bancshares of the US in a $9.6bn deal. The BBVA share fell over 2% on concerns that it had overpaid.

Credit Suisse – The bank was up almost 6% on the week after reporting record fourth quarter profits and the announcement of a new chief executive.

Ireland

CRH – The construction company rose 2.7% on the week as updates on the construction outlook for some of its key markets remained buoyant.

Elan - The pharmaceutical stock rose 9.3% due to better-than-expected global revenues from its multiple sclerosis drug, Tysabri. Comments from CEO, Jim Mullen, that he believes "Tysabri will eclipse all other MS therapies", were also seen as encouraging.

Asia Pacific

Japan – Japanese stocks were boosted last week by a sharp pick-up in economic data. Sony rose as it announced a strategic shift away from semiconductors and was upgraded by Credit Suisse.

Singapore – News of a cut in domestic corporate tax saw the Strait Times index hit an all time high last week. The Australian and Shanghai markets also touched record highs.

Bonds

There were positive returns on bond markets last week helped by comments from Ben Bernanke, Chairman of the Federal Reserve, indicating that US inflation is easing. The Merrill Lynch >5 year Bond Index rose by 0.4% over the week.

Global Outlook

- The general expectation is for 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 recent meeting - the fifth consecutive meeting it has done so. The thrust of the statement from the Fed was that it was firmly on hold for now. After some recent weak economic releases, investors now expect rates may be shaved by 0.25% or so by year end.
- The ECB left rates on hold at it's last meeting as fully expected. However, the post-meeting press conference hinted strongly at a rate rise at the next meeting in March. Markets currently expect one further rise after that hike, with rates peaking at 4% at year end. Bonds have been under pressure so far this year but may gain some support at current levels.
- Equity markets remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; as was the case last year, tighter liquidity conditions from higher interest rates will be a concern in 2007 and periods of volatility are likely. The boom in merger & acquisition activity in Europe and the US continues to support markets and underpin positive investor sentiment towards equities.
- 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 & gas but other positions continue to be pretty balanced. Geographically, the funds are overweight in Europe and the Pacific Basin, underweight Ireland and the US and more neutral in other regions.