Weekly
investment news

30th April 2007

EAGLE STAR

Global Overview

US equity markets gain

US equity markets moved higher last week supported by strong corporate earnings and upbeat guidance for the remainder of 2007. The Dow Jones Industrial Average went through the 13,000 level as a result.

European stocks decline

European stock markets retreated, despite buoyant M&A activity and positive earnings reports, due to concerns regarding the Spanish property market.

Economic Data

There was unsettling economic data from the US late last week. US gross domestic product rose by just 1.3% in the first quarter. This is the lowest figure in four years and much lower than expected. US inflation data ticked up to 2.2% from 1.8% the previous quarter.

Oil price

The oil price rose sharply last week to $66 per barrel due to a fall in US gasoline stocks for the eleventh consecutive month. Geopolitical concerns regarding Iran also contributed to the rise.

Currency

Weak US GDP data resulted in dollar weakness against the euro. The euro hit an all-time high of $1.3682 before easing back towards $1.36. The euro also hit a record high against the yen. The yen weakened due to the Bank of Japan's decision to leave interest rates unchanged and the release of poor Japanese economic data.

Market	Index	Year to Date Return 31.12.06 to 27.04.07		1 Week Return 20.04.07 to 27.04.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	5.3	2.0	0.7	0.5
US	NASDAQ	5.9	2.5	1.2	1.1
Europe	FT/S&P Europe Ex. U.K.	7.2	7.2	-0.5	-0.5
Ireland	ISEQ	0.7	0.7	-2.4	-2.4
UK	FTSE 100	3.2	1.9	-1.1	-1.5
Japan	Topix	1.2	-2.6	-0.5	-1.5
Hong Kong	Hang Seng	2.8	-1.0	-0.2	-0.4
Australia	S&P/ASX 200	8.5	10.6	-0.9	-1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.0	-1.0	0.0	0.0

Global Equities

United States

Overview

US markets moved ahead last week as the majority of companies on the S&P 500 delivered earnings reports which were well received by the market.

Key Movers

Technology – It was another good week for the technology sector with Texas Instruments rising 7% over the week when it gave upbeat guidance on chip demand. Apple jumped over 9% on the back of strong computer sales.

Whirlpool – Strong demand for appliances from overseas markets saw the Whirlpool share price surge almost 18% over the week.

Europe

Overview

European markets ended the week in the red as the Spanish stock market suffered a correction due to fears that the country's ten-year property boom is at an end.

Astroc – Losses were triggered by property company, Astroc, which fell 47% over the week. The company was initially listed last May and saw its share price rise from €6 to €72. It finished the week at just under €15.

Spanish banks – The Spanish banking sector felt the knock-on effects of the slump in property stocks with Banco Popular down 7% and BBVA down 5%.

Scottish & Newcastle – Scottish & Newcastle was the best-performing stock on the UK FTSE 100 following rumours of a possible merger with Carlsberg.

Ireland

Overview

The turmoil on the Spanish stock exchange impacted the Irish market. Data showing that the Irish housing market fell by 0.6% in March also contributed to the broad- based decline.

Financial stocks – The banks were particularly affected with Bank of Ireland down 5.4% and Irish life and Permanent down 7%.

Amarin – The small-cap pharmaceutical company saw its share price collapse 77% as test results showed that its drug Miraxion was ineffective in the treatment of Huntington's disease

Asia Pacific

Overview

Asian markets were subdued last week, with the exception of the Shanghai market which continued to extend its gains with another 5% rise.

Japan – The Japanese market was lower on the week as investor sentiment was undermined by soft economic data.

Australia – Profit-taking on commodities markets led to weakness on the Australian market where many of the stocks are commodity-related.

Bonds

On bond markets, Standard & Poor's upgraded Japanese sovereign debt for the first time since 1975. Weak economic data from the US helped provide some support to both US and eurozone bonds. The Merrill Lynch >5 year government bond index was flat over the week.

Global Outlook

- Forecasters continue to expect some moderation in growth 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.
- At its last meeting the Fed held rates at 5.25% for the sixth consecutive meeting with the minutes dropping any reference to additional increases. Investors have scaled back the expectations of rate cuts by year end – now only anticipating 0.25% – but the Fed remains firmly on hold for now, waiting to see how inflation and economic growth develop over the next while. While calm has been restored to the equity markets – and concerns over the sub-prime mortgage market have waned – the Fed will remain vigilant in assessing the impact of the housing slowdown on the broader economy and the health of the financial system.
- The ECB kept rates at 3.75% at its last meeting but strongly hinted at an increase in June. Investors expect rates to peak at 4.25% around the end of the year. While rates are closer to a neutral level, ECB comments remain hawkish, with upbeat commentary on the economy and little, if any, adverse comment on the high level of the euro exchange rate. While bonds have been over-shadowed by these factors plus the return of calm to equity markets, they have nevertheless reached levels where they may gain support in the short term.

- As long as global risk appetite remains at high levels, equity markets will remain reasonably supported by a strong earnings' background, continued merger and acquisition activity and favourable valuations relative to bonds. As recent experience shows, it is likely that tighter liquidity conditions from higher interest rates will be a concern during the year and periods of volatility are likely.
- Currently, the funds are close to neutral in bonds and slightly overweight equities. Sectorwise, the funds are overweight industrials and underweight utilities, while 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.

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EAGLE STAR HOUSE FRASCATI ROAD BLACKROCK CO DUBLIN IRELAND TELEPHONE 01 283 1301 FAX 01 283 1578 WEBSITE www.eaglestarlife.ie