Weekly investment news

18th December 2006

EAGLE STAR

Global Overview

Interest Rates
The Federal Reserve met last week and as was widely expected, interest rates remained unchanged at 5.25%. However, it warned that concerns about the inflation rate in the US remain.

US rate expectations change
Two sets of economic data from the US last week led to contrasting views regarding interest rate cuts. Strong November retail sales figures showed that US consumer demand has not been badly affected by the weakening housing market, therefore reducing the possibility of an interest rate cut early next year. While on the other hand, inflation data was extremely benign and resulted in talk that the Fed could cut rates in the first half of 2007.

ECB Independence
French politicians questioned the ECB's role and stated that the ECB should be supporting economic growth as well as curtailing inflation. There were also calls for the ECB to be answerable to politicians and not left to act alone on exchange rates. Jean-Claude Trichet responded saying that the ECB was "an apolitical institution which protects the interests of all 315m citizens, whatever their sensitivities are".

Oil prices
News that OPEC had agreed to cut production slightly from February 1st resulted in a rise in prices late last week. Following OPEC's decision the oil price rose by $1 to $63.

Market	Index	Year to Date Return 31.12.05 to 15.12.06		1 Week Return 08.12.06 to 15.12.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	14.3	3.5	1.2	2.4
US	NASDAQ	11.4	0.8	0.8	2.0
Europe	FT/S&P Europe Ex. U.K.	18.6	18.6	2.7	2.7
Ireland	ISEQ	25.2	25.2	3.4	3.4
UK	FTSE 100	11.4	14.5	1.8	2.7
Japan	Topix	0.4	-9.2	2.5	2.2
Hong Kong	Hang Seng	28.5	16.0	2.0	3.2
Australia	S&P/ASX 200	17.1	12.8	2.8	3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.6	-0.6	-0.6	-0.6

Equities

USA

Overview
US stocks rallied last week following a benign inflation report which resulted in bullish year end sentiment and higher risk tolerance. Consumer prices remained unchanged in November causing the S&P500 index to reach a five year high.

Key Movers
General Electric – The conglomerate reached a 52 week high following an announcement that it had raised its quarterly dividend by 12%. The share price finished up 5.7% at $37.2.

Adobe – Adobe announced that it had beaten its fourth-quarter revenue estimate and raised its outlook for 2007, the digital and technology company shares rose by 10.3% over the week to $43.

Europe

Overview

European markets rallied last week with bid speculation in the banking and retail sectors helping European equities reach a 5½ year high on Friday.

Key Movers

ABN Amro – ABN Amro's share price rose by 7% to €24, following speculation of a bid from Dutch rival ING.

Nordea – Shares in the Nordic regions largest bank rose by 6.3% to SKr106.2 after Sampo increased their stake in the bank. They are increasing their holding for tactical reasons due to the Swedish governments indication that it will eventually sell its 20% holding in Nordea.

Nestlé – The food giant's share price rose by 1.5% to SFr436 after announcing it was to buy the medical nutrition business of Novartis for $2.5bn.

Ireland

Irish Life & Permanent – Irish Life & Permanent's share price rose by 5.6% on the week after they delivered a positive update on the market.

CRH – CRH rose 5.5% on the week supported by data which showed continuing strength in European construction output. It is hoped that this will help offset the effects of any further slowdown in the US. Further to this, there was increased forecasts for two of CRH's most important markets, Poland and The Netherlands.

AIB – AIB's share price rose by 3.6% over the week following positive economic data from Poland which will support its Polish operation, BZ WBK.

Asia Pacific

Japan – Tokyo hit a seven-month closing high on Thursday as export focused stocks rose following the US stock consumer demand data and yen weakness.

Other markets – Australia advanced further to another all-time high as takeover activity boosted the market. Singapore also hit a record peak with banking and property leading the way.

Bonds

European bonds dropped again this week following comments from two ECB members indicating further interest rate rises. The Merrill Lynch >5 year bond index lost 0.6% over the week. There was little movement in US bonds despite US inflation data being weaker than expected.

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 meeting last week. 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 the latest official Fed comment continued to give few clues in that regard.
- The ECB, as fully expected, raised rates to 3.5% at its meeting two weeks ago. The tone of ECB rhetoric continued to be hawkish overall. The new set of ECB economic forecasts, released alongside the interest rate decision, suggest lower inflation risks going into the next year and this may set the stage for policy change over the next few months, but that remains speculation at this stage. Bond markets will continue to focus on any data that could trigger such a pause or peak in the ECB rake hike cycle.
- 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 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.