Weekly
investment news

29th January 2007

EAGLE STAR

Global Overview

Subdued week on equity markets
The earnings results season began in the US last week. The results were generally positive with 68% of the 196 S&P 500 companies that have reported beating expectations. However, negative guidance on the earnings outlook from a number of companies resulted in a subdued week overall for equity markets.

Commodity prices
Oil prices rose 7% over the week to over $55 per barrel as the US announced that it will increase its inventories of crude oil. Colder weather forecasts for North America also supported prices.

Currency markets
Sterling rose early in the week due to expectations of rising UK interest rates. However, it weakened subsequently following comments from Mervyn King, Bank of England governor, which hinted that UK interest rates may be reaching their peak. Minutes of the latest monetary policy committee meeting also showed that the committee was divided over the surprise interest rate hike last month.

Economic data
In the US, there was stronger than expected new home sales data and upbeat durable goods data.

Market	Index	Year to Date Return 31.12.06 to 26.01.07		1 Week Return 19.01.07 to 26.01.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	0.3	2.4	-0.6	-0.2
US	NASDAQ	0.8	3.0	-0.7	-0.2
Europe	FT/S&P Europe Ex. U.K.	1.7	1.7	-0.4	-0.4
Ireland	ISEQ	-1.1	-1.1	-0.9	-0.9
UK	FTSE 100	0.1	2.4	-0.2	-0.5
Japan	Topix	2.8	2.9	0.8	1.0
Hong Kong	Hang Seng	1.6	3.4	-0.2	0.1
Australia	S&P/ASX 200	1.8	2.0	1.7	0.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.6	-0.6	-0.2	-0.2

Equities

USA

Overview
US equities failed to make ground last week due to mixed earnings results and rising oil prices.

Key Movers
Technology sector – There were good earnings reports from a number of big technology players. The Ebay share price rose 7.5% with Sun MicroSystems (+10%) and Texas Instruments (+9%) also delivering strong returns. However, Advanced Micro Devices fell 9% after the chipmaker missed its earnings estimates.

Ford – There was bad news from carmaker Ford when it announced an annual loss for 2006 of $12.7 billion.

Europe

Key Movers

Pernod Ricard – The drinks company rose 8% on the back of strong quarterly earnings reports.

L'Oreal – The cosmetics group rose 7% on the week as its fourth quarter sales beat expectations. It also delivered a positive outlook for 2007.

Nokia – Earnings results showed a sharp rise in 2006 operating profits due to strong growth in emerging markets.

Ireland

C&C – The drinks company fell 8% on the week following reports of increased competition in the UK cider market.

Airlines – Ryanair and Aer Lingus both declined last week due to the impact of rising oil prices. Aer Lingus fell over 3% while Ryanair was down 1.4%.

Asia Pacific

Chinese GDP – The Chinese economy delivered its fourth year of double digit growth with GDP for 2006 coming in at 10.7% despite efforts to cool the economy.

Australia – The Australian market had a good week as benign inflation data lowered expectations of an interest rate rise next month.

Bonds

Concerns about rising interest rates in Europe weighed on bond prices last week. Eurozone data showed money supply growth surged to a sixteen year high underpinning the view that Eurozone rates may rise by more than previously anticipated. The Merrill Lynch >5 year bond index fell 0.2% 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 earlier this month. 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 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 Basin, underweight Ireland and the US and more neutral in other regions.