



Global Overview

Equity markets make strong advances

Global equity markets enjoyed an excellent week as confidence grew that the US economy will achieve the much-anticipated soft landing. Employment numbers showed that the economy added 111,000 new jobs in January, less than expected, but this was offset by a strong upward revision to numbers from previous months.

Fed meeting

The Fed left US interest rates unchanged at its meeting during the week, but issued an upbeat statement on the economic outlook. It said that it thought the weakness in the housing market might be bottoming out and cited progress on inflation.

Corporate earnings

As the earnings season kicked on, of the 308 S&P 500 companies to have reported, 64% beat expectations, 16% matched forecasts and 20% disappointed.

Commodity prices

Oil and metals' prices moved in opposite directions during the week. The oil price rose 6% on the week, closing at \$59 per barrel. Copper fell 8% on the week, while zinc fell 15%, both affected by rumours that a hedge fund had suffered major losses in January.

Currency markets

The yen hit a four-year low against the dollar as figures revealed that Japanese sales and consumer spending both fell in December.

Market	Index	Year to Date Return 31.12.06 to 02.02.07		1 Week Return 26.01.07 to 02.02.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.1	4.0	1.8	1.5
US	NASDAQ	2.5	4.4	1.7	1.4
Europe	FT/S&P Europe Ex. U.K.	3.6	3.6	1.9	1.9
Ireland	ISEQ	0.9	0.9	2.0	2.0
UK	FTSE 100	1.5	3.8	1.3	1.3
Japan	Topix	3.7	3.7	0.8	0.8
Hong Kong	Hang Seng	3.0	4.5	1.4	1.1
Australia	S&P/ASX 200	2.9	2.9	1.1	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.4	-0.4	0.3	0.3

Equities



USA

Overview

US equities moved strongly ahead, driven by increasing confidence in the soft landing scenario and activity in the mergers & acquisitions world.

Key Movers

Exxon – The world's largest public oil company reported the highest-ever annual profit by a US company, at \$39.5 billion, despite a fall in earnings in the last quarter of 2006 as energy prices dropped.

Bristol-Myers Squibb – Shares in the pharmaceutical company rose almost 10% on the week on speculation that Sanofi-Aventis was about to launch a bid. Such a combined company would be the world's largest drug group, overtaking Pfizer.

US Airways – The airline saw its stock rise over 12% on the week as it withdrew its offer for Delta, which is in bankruptcy protection. It also reported a return to profitability in the fourth quarter.



Europe

Key Movers

Eon – The German power generator rose nearly 11% during the week on expectations that it would be spared a costly bid battle for Spain's Endesa, as rival bidder Gas Natural withdrew from the race.

Sainsbury – The UK supermarket group was the week's biggest gainer, up 17%, after three private equity groups confirmed speculation that they were considering a bid. Other supermarket stocks also went higher.

Corus – Indian company Tata Steel won the auction to acquire the Anglo-Dutch steelmaker, in the largest ever acquisition by an Indian company. Tata's bid values the company at about £6.7 billion.



Ireland

Anglo Irish Bank – The bank announced plans to raise about €542 million through an issue of €35.7 million new shares (5% of the company's share capital). The share price absorbed this and rose 1.5% on the week.



Asia Pacific

Chinese market – The Shanghai stock markets suffered a steep sell-off, falling over 7% on the week, after a government official warned of a bubble in share valuations.

Elsewhere – Tokyo climbed to a nine-month peak on Thursday, helped by the US economic news and some positive corporate results. Sydney and Singapore recorded closing highs on the same day.

Bonds

After a rocky start to the week, eurozone bonds rallied to make a modest gain overall. The Fed statement, which suggested that readings on core inflation had "improved modestly", was bond-positive on both sides of the Atlantic. 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 last week - 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. Investors have almost fully pared back expectations of rate cuts in 2007.
- The ECB meets this week and, while rates are fully expected to be left on hold, investors will focus on indications that rates will rise in March. Markets expect one further rise after that, 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 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.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star.
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