Weekly

investment news

26th March 2007

EAGLE STAR

Global Overview

US and European equities rally

European and US equities rallied last week as hopes of US interest rate cuts and merger & acquisition activity helped both markets to their best week in four years.

Fed meeting

The Fed left US interest rates unchanged at its meeting during the week, but they made no reference to "additional firming" in their report. This has resulted in rising expectations that the Fed may cut rates in 2007.

Economic news

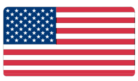
In the US, there was a rebound in housing starts last month following a 14% fall in January. New housing starts rose by nearly 10% in February and this helped ease fears of a housing market slowdown.

Commodity prices rise on supply issues

Oil prices rose near on 9% to finish the week at $62 a barrel. This rise was attributed to increased geopolitical tensions involving Iran and a drop in US oil stocks. Copper prices rose another 10% due to fears that the reduced supply will result in demand not being met.

Market	Index	Year to Date Return 31.12.06 to 23.03.07		1 Week Return 16.03.07 to 23.03.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.3	0.5	3.5	3.7
US	NASDAQ	1.4	0.6	3.2	3.4
Europe	FT/S&P Europe Ex. U.K.	3.5	3.5	4.8	4.8
Ireland	ISEQ	1.1	1.1	3.1	3.1
UK	FTSE 100	1.9	1.4	3.4	4.7
Japan	Topix	3.6	3.8	3.9	3.0
Hong Kong	Hang Seng	-1.4	-2.5	3.9	4.1
Australia	S&P/ASX 200	5.0	6.5	2.0	3.5
Bonds	Merrill Lynch Euro over 5 year Govt.	0.3	0.3	-0.9	-0.9

Global Equities



USA

Overview

Interest rate expectations and housing data caused the US to rally strongly, recording its best weekly gain in four years.

Key Movers

Housing Sector – The increased housing starts helped both homebuilders and mortgage lenders last week. KB Homes rose by over 3%, while Morgan Stanley rose by close to 10% as fears about possible subprime mortgage losses eased.

Energy Companies – Following the strong week in equities and rising oil prices, energy stocks recorded the biggest gains last week. Exxon's share price rose by over 7%, while Chevron was up 8% on the week. However, despite these increases, Halliburton's expectation of weaker US demand caused its price to drop almost 3% over the week.

Europe

Overview

Strong world markets and M&A activity were the main factors in Europe's strong rally last week.

Investment Banks – ABN Amro confirmed that it is in talks with Barclay's Bank regarding a possible merger. This resulted in ABN Amro's price rising by almost 20%. There was also speculation that Citigroup may be lining up a bid and that ING Group is also considering European acquisitions.

Altadis – The tobacco group jumped a further 9% to nearly €48 last week after turning down Imperial Tobacco's initial offer of €45 per share

Daimler Chrysler – The German car maker's share price rose almost 15% on the week following speculation that its Chrysler division may be sold off.

Ireland

Bank of Ireland – A trading statement issued last week, stating that earnings for the year would grow by 22%, was lower than investors expected and this caused the share price to drop by 4%.

Aer Lingus - The carrier's share price rose by 12% in the wake of the open skies agreement and the subsequent announcement that three new routes to the US would be opened up.

Asia Pacific

Overview

The Fed's comments on interest rates helped the Asian markets recover to the levels reached prior to the major sell-off at the end of February.

Hong Kong – The Hang Seng enjoyed strong gains on the week, led by interest rate-sensitive property stocks. The property sub-index rose close to 3%.

Japan – The Japanese markets rose last week as export-focused sectors benefited from renewed optimism about the US economy following the Fed's comments.

Bonds

Despite the positive comments from the Fed, which increased the possibility of interest rate cuts, there were negative returns on bond markets as inflation worries persisted in the US and European markets. The Merrill Lynch >5 year bond index dropped 0.9% 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. They will clearly take note of any volatility in financial markets but a policy response is highly unlikely in the US.
- The Fed held rate at 5.25% for the sixth consecutive meeting with the minutes dropping any reference to additional increases. Investors continue to expect rates to be shaved by 0.25% or so by year end but the Fed remains firmly on hold for now, waiting to see how inflation and economic growth develops over the coming quarter. It would be more concerned about a spill-over of problems from the subprime mortgage market to the broader financial system (it sees none of this yet) than general volatility in financial markets.
- The ECB hiked rates to 3.75% at its recent meeting, as fully anticipated. ECB comments since then have suggested that rates are now closer to a desired level (they were described as "moderate" after the hike rather than "low" after the previous increase). Bonds, however, are probably over-shadowed by the return of calm to equity markets and may suffer a little from the lack of safe-haven support in the near term.
- As long as global risk appetites return to previous levels, equity markets will remain reasonably supported by a strong earnings' background 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 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.

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