

Global Overview

US and European markets gain

Most world equity markets posted modest gains last week. European markets hit 6-year highs following strong M&A activity, while in the US markets, though a little unsettled about worries over inflation and interest rate policy, also rose.

Interest Rates

The ECB held rates steady at 3.75% at its meeting last week. Jean-Claude Trichet, the president of the European Central Bank, hinted that a further rise may be required shortly as inflation risks remain in the eurozone. Inflation concern is also evident in the US and this has contributed to reducing expectations of interest rate cuts in the near future.

Commodities

Commodity prices rallied last week due to concerns about the supplies of copper, lead and nickel, combined with strong demand from China. The copper price was up more than 5% due to strong demand, while both nickel and lead hit record highs following declining stockpile concerns.

Oil price

Oil prices rose towards the end of last week to almost \$64 after the International Energy Agency signalled that oil supplies in the first quarter may have declined by their largest amount since 1996.

Currency

The euro climbed to a 2-year high against the dollar last week. The €/£ rate at the end of the week was 1.35.

Market	Index	Year to Date Return 31.12.06 to 13.04.07		1 Week Return 06.04.07 to 13.04.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.4	0.0	0.6	-0.4
US	NASDAQ	3.2	0.7	0.8	-0.2
Europe	FT/S&P Europe Ex. U.K.	5.9	5.9	0.8	0.8
Ireland	ISEQ	2.1	2.1	1.9	1.9
UK	FTSE 100	3.9	2.7	1.0	0.9
Japan	Topix	1.5	-1.2	-0.7	-1.7
Hong Kong	Hang Seng	1.9	-1.0	0.7	-0.4
Australia	S&P/ASX 200	8.2	11.5	1.0	1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.5	-1.5	-1.1	-1.1

Global Equities



United States

Overview

US stocks made modest gains last week following uncertainty over the economy along with the slowing housing market and sub-prime mortgage woes.

Key Movers

American Home Mortgage – Sub-prime mortgage lender, American Home Mortgage's share price fell by almost 18% after it reduced its profit forecast for this year.

Citigroup – The financial services company announced it is planning to reduce its workforce by 17,000 in cost-cutting measures. The share price was unchanged last week and remained down over 7% over the year.



Europe

Overview

European markets rallied last week following strong M&A activity and expectation that earnings will exceed expectations. European markets are now at their highest level in over 6 years.

Oil Industry – Following the rise in the oil price last week due to increased demand and reduced supply concerns, European oil companies posted strong gains last week. Shell rose almost 3%, Total and Statoil 2%, while BP and OMV led the way with 3.9% and 4.3% respectively.

GlaxoSmithKline – The pharmaceutical giant's share price rose by over 3% after it received approval to sell a new ointment in the US.



Ireland

Irish Life & Permanent – The bank's share price rose by over 6% last week following the launch of its new direct personal loans subsidiary, Bluecubeloans.

United Drug – Following the acquisition of the specialist packaging company, Budelpack, and the expectation of further M&A opportunities, United Drug's share price rose by almost 4% last week.



Asia Pacific

Australia – Australian stocks gained further last week and the market is now close to record highs. Domestic shares were helped by strong employment data which showed that the unemployment rate had dropped last month.

Other markets – Concerns about US economic outlook and interest rates affected Asian export stocks last week. The Topix dropped slightly following some poor economic data.

Bonds

US bond prices fell last week following inflation concerns which may prevent the Fed reducing rates in the near future. European bond prices also dropped as fears grew that the ECB may raise rates more than once this year and push them above the 4% rate. The Merrill Lynch >5 year bond index dropped 1.1% 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 further the expectations of rate cuts by year end – now to less than 0.25% – but the Fed remains firmly on hold for now, waiting to see how inflation and economic growth develop over the coming quarter. It would be more concerned about a spill-over of problems from the sub-prime mortgage market to the broader financial system (it sees none of this yet) than general volatility in financial markets.
- The ECB kept rates at 3.75% at its meeting last week but strongly hinted at an increase in June. While rates are closer to a neutral level, ECB comments remain hawkish, with upbeat commentary on the economy and no adverse comments 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 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, 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.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star.
Advice should always be sought from an appropriately qualified professional.