

## Global Overview

### Sell-off on markets

Investors endured a difficult week last week with sharp declines on both equity and bond markets worldwide.

### Interest rates

Strong economic data from the US helped to dampen the prospect of US interest rates cuts for the remainder of the year. In Europe, the ECB increased rates to 4% on Wednesday. Speculation is mounting that rates will reach 4.5% by the end of 2007.

### US dollar strength

The US dollar was strong last week rising 0.7% against the euro to leave the €/£ rate at 1.34.

### Commodity prices

Brent crude prices rose over 1% on the week to over \$69 per barrel. OPEC declared that it is not prepared to lift production despite continued supply and geopolitical concerns.

| Market    | Index                                | Year to Date Return<br>31.12.06 to 08.06.07 |           | 1 Week Return<br>01.06.07 to 08.06.07 |           |
|-----------|--------------------------------------|---------------------------------------------|-----------|---------------------------------------|-----------|
|           |                                      | Local Currency<br>%                         | Euro<br>% | Local Currency<br>%                   | Euro<br>% |
| US        | S&P 500                              | 6.3                                         | 5.0       | -1.9                                  | -1.2      |
| US        | NASDAQ                               | 6.6                                         | 5.3       | -1.5                                  | -0.8      |
| Europe    | FT/S&P Europe Ex. U.K.               | 7.0                                         | 7.0       | -4.1                                  | -4.1      |
| Ireland   | ISEQ                                 | -0.3                                        | -0.3      | -5.8                                  | -5.8      |
| UK        | FTSE 100                             | 4.6                                         | 3.7       | -2.6                                  | -2.8      |
| Japan     | Topix                                | 4.5                                         | 1.0       | -0.7                                  | 0.4       |
| Hong Kong | Hang Seng                            | 2.7                                         | 1.0       | -0.5                                  | 0.2       |
| Australia | S&P/ASX 200                          | 9.9                                         | 15.9      | -1.6                                  | 0.2       |
| Bonds     | Merrill Lynch Euro over 5 year Govt. | -3.4                                        | -3.4      | -0.9                                  | -0.9      |

## Global Equities



### United States

#### Overview

It was a dismal week on Wall St. as bond yields rose to their highest levels in over a year. Rate sensitive sectors such as utilities and real estate were the worst affected.

#### Key Movers

**Underperformers** – Pfizer was down 4% over the week amid legal difficulties while Dupont fell nearly 4% on a broker downgrade.

**Apple** – The technology sector has some better performers. Apple rose over 5% as investors wait for the release of the iPhone. Online retailer Amazon rose almost 6% over the week.



## Europe

### Overview

European markets fell victim to a sharp sell off with utility stocks hardest hit. The value of dividend payouts from utility stocks is diminished by rising bond yields. Technology and energy stocks outperformed as investors rotated out of interest rate sensitive stocks.

**Merck** – The pharmaceutical company finished the week up 3% on the back of a positive reaction to data presented at a US cancer conference.



## Ireland

### Overview

The Irish market suffered dramatic declines last week with the overall market down almost 6%. Stocks weakened across the board with Ryanair putting in the worst performance, down 10.3% on disappointing earnings guidance.

**Financials** – Rising interest rate expectations and concerns regarding the housing market took their toll on financials stocks. AIB fell 6.7% while Anglo Irish Bank was down 6.6%. Irish Life & Permanent declined almost 9%.



## Asia Pacific

### Overview

Asian markets also saw a good deal of volatility over the week with declines across most markets.

**Japan** – In Japan, there was profit-taking in evidence on export oriented stocks. Hong Kong fared better than many of its international counterparts supported by US dollar strength.

## Bonds

Government bonds on both sides of the Atlantic fell sharply again last week. In the US, yields rose to multi year highs. In Europe, hawkish rhetoric from the ECB following an interest rate rise to 4% undermined Eurozone bonds. The Merrill Lynch >5 year government bond index ended the week down 0.9%.

## Global Outlook

- Forecasters continue to expect some moderation in growth in 2007, from the robust levels of 2006. The major central banks remain focused on the cyclical inflation pressures stemming from strong growth.
- At its recent meeting the Fed kept rates at 5.25% for the seventh consecutive time. It remains firmly on hold for now, waiting to see how inflation and economic growth develop over the next few months. With recent economic data firmer than expectations, investors no longer expect any rate cuts this year.
- The ECB raised rates as expected to 4% last week. While that level will be closer to neutral, ECB comments continue to be hawkish. Bonds in the US and Europe have again reacted poorly in the past week; investors capitulating and dumping exposures.
- It's still the case that equity markets remain reasonably supported by strong earnings' background, continued merger and acquisition activity and favourable valuations relative to bonds. As stated continuously for some time now, it is likely that tighter liquidity conditions from higher interest rates would produce corrections and further periods of volatility. Last week had an air of panic in both bond and equity markets. If investors recover their nerve then equities can regain this lost ground, but most likely at a gradual pace.
- Currently, the funds are close to neutral in bonds and slightly overweight equities. Sectorwise, the funds are overweight industrials and underweight utilities and financials, while other positions continue to be pretty balanced. Geographically, the funds are overweight 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.

EAGLE STAR HOUSE FRASCATI ROAD BLACKROCK CO DUBLIN IRELAND TELEPHONE 01 283 1301 FAX 01 283 1578 WEBSITE [www.eaglestarlife.ie](http://www.eaglestarlife.ie)

EAGLE STAR LIFE ASSURANCE COMPANY OF IRELAND LIMITED IS REGULATED BY THE FINANCIAL REGULATOR

Intended for distribution within the Republic of Ireland