Weekly
investment news

16th January 2006

EAGLE STAR

## Global Overview

- Global equity markets paused for breath last week after the very strong start to the year the previous week. Hong Kong was the notable exception, rising almost 3%.
- On the interest rate front, both the European Central Bank and the Bank of England left rates unchanged following their respective meetings on Thursday. The accompanying comments from ECB President Trichet were interpreted as being slightly less hawkish than previous remarks.
- The euro finished the week virtually unchanged against the dollar. The dollar started the week poorly but strengthened as it benefited from a narrower than expected US trade gap for November and from Jean-Claude Trichet's remarks.
- In Germany, there was further evidence of economic recovery in the ZEW Institute's January survey which showed that German investor confidence had climbed to its highest level for two years.
- Meanwhile, the Chinese trade surplus hit $11billion in December, increasing the full-year surplus to $102billion, more than triple 2004's surplus.
- Commodity prices were very strong during the week, with zinc and copper at new record levels, while gold hit a new 25-year high on Monday before easing a little. The oil price also rose above $65 per barrel during the week on worries about Iran's nuclear policies, but eased as the week wore on.

| Market | Index | Year to Date Return 31.12.05 to 13.01.06 | | 1 Week Return 06.01.06 to 13.01.06 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S & P 500 | 3.2 | 0.6 | 0.2 | 0.3 |
| US | NASDAQ | 5.1 | 2.4 | 0.5 | 0.6 |
| Europe | FT/S&P Europe Ex. U.K. | 2.1 | 2.1 | -0.3 | -0.3 |
| Ireland | ISEQ | 2.2 | 2.2 | 0.5 | 0.5 |
| UK | FTSE 100 | 1.6 | 2.4 | -0.4 | 0.1 |
| Japan | Topix | 1.9 | 2.7 | -0.2 | 0.1 |
| Hong Kong | Hang Seng | 6.1 | 3.5 | 2.9 | 3.1 |
| Australia | S&P/ASX 200 | 1.5 | 1.8 | 1.0 | 1.3 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 0.5 | 0.5 | 0.1 | 0.1 |

## Equities

### USA

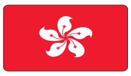
- After a strong start to the week, which saw the Dow Jones Index break through the 11,000 level on Monday, disappointing results from aluminium smelter Alcoa slowed momentum in the US market.
- Apple shares hit a series of all-time highs during the week, rising 12% on the week, as Steve Jobs predicted a better-than-expected fourth quarter due to strong demand for iPods.
- On the takeover front, Boston Scientific raised its bid for medical device maker Guidant to $73 per share, valuing the company at about $2 billion more than Johnson & Johnson's bid.
- The board of Tyco International announced plans to dismantle the $58 billion conglomerate into three separate publicly traded companies.

### Europe

- On European markets, France Telecom was the week's heaviest casualty, falling nearly 11%, after the company warned on full-year revenues and talked of increasing competition and lower margins. Other telecoms companies also fell on the week.
- On a happier note, the week's biggest winner was OPAP, the Greek gambling group, which rose 7%, having received government approval to expand the scope of its operations.
- P&O, the world's fourth largest container terminal operator, was in the news as it was the subject of competing takeover offers from Dubai's DP World and Singapore's Temasek.
- In the UK retail sector, HMV slumped nearly 9% as it warned that on-line competition had hit sales. Marks & Spencer, always closely watched in the sector, emerged from the Christmas period relatively unscathed.

### Ireland

- The Irish market grew 0.5% during the week, with Elan adding nearly 11%. The company has been on the road with an investor roadshow which is being well-received.
- Independent News & Media added nearly 7% in the week that it was announced that Denis O'Brien, the telecoms entrepreneur, had taken a 3% stake in the company.



### Pacific Basin

- The Japanese market, as measured by the Nikkei 225 Index, ended the week at a fresh five-year high, although it only rose 0.2% on the week. The Topix Index actually fell a little.
- Shares in Sharp, the leading maker of LCD televisions, jumped over 6% on Thursday after it announced plans to spend an extra Y200bn on an LCD plant under construction in Japan.
- The Hong Kong market has been on a strong rally, rising for nine successive days, to it highest level in nearly five years on hopes that local interest rates could be near a peak.

## Eurozone Bonds

- Eurozone bonds rose 0.1% on the week, as measured by the Merrill Lynch Eurozone Government > 5 year Index. Bonds fell in the first half of the week as stronger than expected economic news out of Germany held the market back.
- The ECB left eurozone interest rates on hold on Thursday and some less hawkish comments from ECB President Trichet gave bond markets in Europe, and beyond, a lift.

## Global Outlook

- Global growth continues to be healthy despite high oil prices and higher global interest rates. Inflation vigilance should remain high among the major central banks during 2006.
- Investors expect US rates to peak at slightly less than 4.75%, from current levels of 4.25%. This expectation depends on the strength of activity and inflation data over the next few months.
- Investors remain on watch for data that may sway the ECB to further rate increases. In the background is still moderate inflation and pension fund liability matching which should continue to offer support to longer-dated bonds.
- Equity markets remain supported by a strong earnings' background and favourable valuations relative to bonds and cash; high oil prices and tighter liquidity conditions from higher interest rates should constrain the upside to markets.
- Currently, the funds are slightly underweight in bonds and slightly overweight equities versus the manager average. Sectorwise, the funds are overweight general industrials and financials while underweight some of the defensive areas like utilities and telecoms. Other sectors are broadly neutral. Geographically the funds are underweight Ireland, the UK and North America; Europe and Japan remain overweight, while the Pacific Basin has also been increased to an overweight position.

EAGLE STAR HOUSE FRASCATI ROAD BLACKROCK CO DUBLIN IRELAND TELEPHONE 01 283 1301 FAX 01 283 1578 WEBSITE www.eaglestarlife.ie