Weekly investment news

16th October 2006

EAGLE STAR

Global Overview

Interest Rates
The release of minutes from the Federal Reserve's September meeting gave the markets food for thought, as they revealed that there is still significant concern about inflation risks. This helped scale back expectations about the prospects for a cut in US rates early next year and also rattled bond markets.

Economic News
In the eurozone, there were strong industrial output numbers from Germany, France and Italy. In the US, the University of Michigan consumer sentiment index for October comfortably beat expectations.

Oil prices
Oil prices dipped further during the week before rallying on Friday, against a background of a lack of clarity from OPEC about planned production cuts.

Currencies
The dollar continued its recent strength against the other major currencies, this despite a record trade deficit of $69.9bn in August. It closed at $1.25 against the euro and hit its highest level this year against the yen.

Market	Index	Year to Date Return 31.12.05 to 13.10.06		1 Week Return 06.10.06 to 13.10.06	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	9.4	3.5	1.2	2.0
US	NASDAQ	6.9	1.2	2.5	3.4
Europe	FT/S&P Europe Ex. U.K.	14.0	14.0	1.8	1.8
Ireland	ISEQ	14.9	14.9	2.2	2.2
UK	FTSE 100	9.6	12.0	2.6	2.6
Japan	Topix	-1.3	-8.0	-0.4	-0.3
Hong Kong	Hang Seng	20.9	13.9	0.5	1.3
Australia	S&P/ASX 200	11.1	7.6	1.3	3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.5	-1.5	-0.4	-0.4

Equities

USA

Overview
The Dow Jones Industrial Average hit its highest-ever level on Thursday, while the broader-based S&P 500 set a five-year high. The third-quarter reporting season got off to a shaky start as Alcoa reported profits that fell short of expectations but improved thereafter.

Key Movers
Alcoa – The aluminium producer lost over 5% on Wednesday, following the announcement of an 86% increase in third-quarter profits, significantly less than analysts had expected.

McDonalds – The world's largest restaurant chain said on Thursday that its preliminary third-quarter profits had risen to 68 cents per share, ahead of estimates. Its shares rose 5% on the week.

Google – The online search engine announced plans to buy internet video company YouTube for $1.65bn. Google shares rose 1.6% on the week.

Europe

Overview

European markets reached their highest levels for five-and-a-half years last week, driven by optimism on profits and continuing mergers & acquisitions activity.

Key Movers

Sony Ericsson – Following results from the joint venture handset maker, which were described as "sensational", shares in Ericsson advanced 6% on the week.

Scania – The long-running takeover battle for Scania moved towards an apparent resolution, with MAN, the German truckmaker bidding for the company, seemingly winning the backing it needed from Volkswagen, which had previously been blocking MAN's efforts.

London – The FTSE 100 Index closed at a five-year high on Friday, helped by sharp climbs in mining stocks. BHP Billiton was up 10% on the week, while Rio Tinto rose 11%.

Ireland

C&C – The stock added over 2% in the week it announced a 77% year-on-year rise in earnings for the first half of 2006. This was fuelled by an 85% rise in sales of branded cider.

Others – AIB added over 4% as M&T, the US bank in which it holds a significant stake, announced good results. Ryanair fell 3% as the initial surprise surrounding its bid for Aer Lingus abated somewhat.

Asia Pacific

North Korea – Asian markets were sharply lower on Monday following claims from North Korea that it had carried out an underground nuclear test. However, overseas buyers drove markets higher as the week progressed, seeing Monday's weakness as a buying opportunity.

Overall – By the end of the week many markets, including India, Singapore and Indonesia, hit all-time highs. Hong Kong closed at a six-year peak and Australia, buoyed by a good week for mining stocks, was up 1.3% on the week.

Bonds

Eurozone bonds fell on the week as the rhetoric from the ECB continued to be hawkish, and following some strong economic data. In the US, expectations of an early interest rate cut diminished amid signs of continued economic growth and concerns over inflation. The Merrill Lynch > 5 year Index fell 0.4% on the week.

Global Outlook

- Growth expectations remain at high levels with global GDP forecast to expand robustly again in 2006, although leading indicators suggest some growth moderation in 2007. The major central banks continue to focus on cyclical inflation pressures stemming from strong growth and high oil prices.
- As expected, the Fed left rates unchanged at 5.25% at its meeting last month. Investors now believe that interest rates have peaked for this cycle. However, this expectation remains dependent on a slowing in the growth rate and no further acceleration in inflation. Market expectations for early rate cuts may have to be pared back further, given the very cautious Fed comments in this regard.
- As expected, the ECB recently raised rates to 3.25% and confirmed market expectations of a further rise to 3.5% before year end. It gave little indication of its plans for 2007 although the tone of ECB rhetoric continues to be hawkish overall. Bonds had performed well on the back of better inflation data and some indications that global growth might peak this year, but may suffer a little from ongoing ECB hawkishness and weaker oil prices.
- Equity markets still remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; tighter liquidity conditions from higher interest rates continue to be a concern and periods of volatility are likely. The sharp fall in energy prices may help underpin positive sentiment in the near term. The gradual ending of super-easy money policies in Japan deserves attention because of its potential negative impact on various asset classes.
- Currently, the funds are close to neutral in bonds and slightly overweight equities versus the manager average. Sectorwise, positions are pretty balanced at the moment. Geographically, the funds are overweight in Europe, underweight Ireland and the US and more neutral in the other regions.

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