Weekly investment news

12th February 2007

EAGLE STAR

Global Overview

Equity markets continue to make advances

Most global equity markets traded in a range as concerns continued over the outlook for economic growth, inflation and interest rates.

Interest rates

The European Central Bank and the Bank of England left interest rates unchanged at their meetings during the week. The ECB signalled that a there would be an interest rate hike at the next meeting in March, with the possibility of further increases later in the year. Investors had been hoping for indications of a longer pause.

Commodity prices

Oil prices rose above the $60 a barrel mark on Friday following OPEC's cut in output and the higher demand due to colder weather. Copper and zinc prices both recovered on the week by 4.2% and 1.6% respectively. They had both been badly affected the previous week by rumours that a hedge fund had suffered major losses in January.

Market	Index	Year to Date Return 31.12.06 to 09.02.07		1 Week Return 02.02.07 to 09.02.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.4	2.8	-0.7	-1.1
US	NASDAQ	1.8	2.8	-0.7	-1.1
Europe	FT/S&P Europe Ex. U.K.	4.1	4.1	0.5	0.5
Ireland	ISEQ	3.3	3.3	2.4	2.4
UK	FTSE 100	2.6	3.7	1.1	-0.0
Japan	Topix	3.8	3.1	0.2	-0.6
Hong Kong	Hang Seng	3.6	4.6	0.6	0.1
Australia	S&P/ASX 200	4.5	4.5	1.6	1.6
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.5	-0.5	-0.1	-0.1

Global Equities

USA

Overview

US equities traded in a tight range over the week despite positive economic data such as productivity and labour cost figures.

Key Movers

New Century Financial – Shares in the large sub-prime lender dropped by over 44% on the week to finish at just under $17. A sub-prime lender is one which lends to borrowers who do not qualify for loans from mainstream lenders.

General Motors – The car giant's share price recovered on the week following indications of a positive end to negotiations with unions over healthcare. The share price rose by 8% to almost $36.

Europe

Key Movers

Infinion – The German technology group secured two major contracts this week, one with Mastercard the other with Nokia. The share price rose by just over 8% to end the week at €12.

Julius Baer – In a volatile banking sector, the Swiss bank's share price rose by almost 8% following the announcement that it had recorded a larger than expected rise in net profits for the year.

Altadis – The Spanish tobacco company's share price fell by 4% on the week after Imperial Tobacco announced it was planning to buy CBHS Inc. which trades as Commonwealth Brands. It had been assumed that Imperial would make a bid for Altadis.

Ireland

Ryanair –The low cost airline's share price rose by almost 10% on the week following the announcement that its final pre-tax profits for Q4 2006 had increased by 30%.

Elan - Elan traded in a tight range over the week as an update on Tysabri's progress will be provided this Thursday.

Asia Pacific

Japanese market – The Topix Index was flat on the week with a large decline in the shipping sector being countered by strong gains from the exporters due to a weaker yen.

Elsewhere – Asian stocks recorded gains on the week with the Australian and Singapore markets, as well as the MSCI Asia-Pacific Index, reaching record highs. The Australian market was helped by the recovery in commodity prices.

Bonds

While the ECB held rates at 3.5%, the eurozone bond price retreated on the week following the indication that they would rise again in March. Trading on the UK bond market was volatile ahead of next week's quarterly inflation report which may indicate the possibility of further rate rises. The Merrill Lynch >5 year Bond Index dropped by 0.1% over the week.

Global Outlook

- The general expectation is for some growth moderation 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.
- As expected, the Fed left rates unchanged at 5.25% at its recent meeting - the fifth consecutive meeting it has done so. The thrust of the statement from the Fed was that it was firmly on hold for now. Investors have almost fully pared back expectations of rate cuts in 2007.
- The ECB met last week leaving rates on hold, as fully expected. However, the post-meeting press conference hinted strongly at a rate rise next month. Markets currently expect one further rise after that hike, with rates peaking at 4% at year end. Bonds have been under pressure so far this year but may gain some support at current levels.
- Equity markets remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds; as was the case last year, tighter liquidity conditions from higher interest rates will be a concern in 2007 and periods of volatility are likely. The boom in merger & acquisition activity in Europe and the US continues to support markets and underpin positive investor sentiment towards equities.
- 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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