



## Global Overview

### Equity markets continue to make advances

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

### Japanese Interest Rates

Following better than expected economic data from Japan earlier this month, which indicated that the economy expanded strongly in the fourth quarter, the Bank of Japan increased interest rates by 0.25% last week. However, the Topix was up 2.3% on the week due to strong export trade on the back of the yen's relative weakness.

### Oil Prices

Oil prices rose on the week by over 4% to \$61. This increase was due to data which showed a drop in US fuel stocks along with geopolitical tensions surrounding Iran's nuclear ambitions.

### Commodity Prices

Copper continued its recovery by rising almost 8% on the week, while both gold and lead rose following the Bank of Japan's decision to increase interest rates.

Market	Index	Year to Date Return 31.12.06 to 23.02.07		1 Week Return 16.02.07 to 23.02.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.3	2.5	-0.3	-0.6
US	NASDAQ	4.1	4.3	0.8	0.5
Europe	FT/S&P Europe Ex. U.K.	4.5	4.5	-0.1	-0.1
Ireland	ISEQ	5.3	5.3	0.0	0.0
UK	FTSE 100	2.9	3.4	-0.3	0.2
Japan	Topix	8.0	6.4	2.3	0.5
Hong Kong	Hang Seng	3.7	3.5	0.7	0.5
Australia	S&P/ASX 200	6.5	7.1	1.4	1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.1	0.1	0.2	0.2

## Global Equities



### USA

#### Overview

US markets traded in a range last week due to an unexpected, but small, rise in inflation, higher oil prices and continued problems for mortgage lenders.

#### Key Movers

**NovaStar** – Shares in the sub-prime lender dropped by 50% on the week. This followed its announcement of financial losses along with the expectation of little or no taxable income in the coming years. A sub-prime lender is one which lends to borrowers who do not qualify for loans from mainstream lenders.

**Abercrombie & Fitch** – The clothing manufacturer's share price dropped by almost 2% on the week following higher than expected wage costs for the first half of this year.



## Europe

### Key Movers

**ABN Amro** – The financial giant's share price rose by 10% on the week on hopes of a strategic change at the bank which could see some of its banking arms being sold off.

**Allianz** – The German insurance company announced a 57% rise in fourth quarter earnings. This resulted in a rise in its share price of over 5%.

**BASF** – The chemicals group's announcement that it had increased the dividend for 2006 by 50% resulted in the share price rising by over 5% to a record high.



## Ireland

**Ryanair** – The low cost airline's share price dropped by just over 1% on the week following the announcement that the European Commission will take longer than expected to review their potential hostile takeover bid of Aer Lingus.

**Elan** – Shares in the pharmaceutical company dropped by almost 6% on the week. This was following the sharp rise of over 10% the previous week and the lack of obvious near-term newsflow on Tysabri.



## Asia Pacific

**Japan** – Japanese stocks gained on the week following Wednesday's interest rate rise and the indication given that the Bank of Japan would only increase interest rates gradually in the months to come. The Topix was up 2.3% on the week due to strong export trade.

Elsewhere, Asian stocks recorded gains on the week with the Australian and Singapore markets both rising. The Australian market was helped by the recovery in commodity prices and increased demand in the banking sector.

## Bonds

European government bond prices rose slightly last week following weak German business confidence data. The Merrill Lynch >5 year Bond Index rose by 0.2% over the week.

## Global Outlook

- The general consensus is for economic growth to moderate 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. After some recent weak economic releases, investors now expect rates may be shaved by 0.25% or so by year end.
- The ECB left rates on hold at its last meeting, as fully expected. However, ECB rhetoric remains hawkish and investors are fully prepared for a hike at the March meeting and at least one further increase after that. Rates are currently forecast to peak at 4%. These concerns kept bonds under pressure at the beginning of the year but some support has come to the market in the past couple of weeks.
- Equity markets remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds. It's likely that tighter liquidity conditions from higher interest rates will be a concern during the year and periods of volatility are likely. The boom in merger & acquisition activity in Europe and the US continues to support 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.

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.