



Global Overview

Equity markets recover strongly

Following the sharp market correction at the end of February/early March, equity markets rallied and experienced solid returns on the week. Commodities also recovered strongly from recent losses.

Interest rates

Both the European Central Bank and the Bank of England met to consider interest rates last week. The upshot was a fully-expected rise of 0.25% in the eurozone, to 3.75%, and no change in the UK. The President of the ECB, Jean Claude Trichet gave indications that further rises may be required this year due to inflation concerns.

Economic news

In the US, stronger than expected labour market data was released which showed that the jobless rate fell by 0.1% during February. Weaker figures had been expected. However, the stronger data resulted in investors reducing their expectations of an interest rate cut in the near future.

Commodity prices recover

Gold, nickel and copper all rose and have regained most of their losses experienced over the past fortnight. The oil price traded in a range between \$60 and \$62 last week following an unexpected drop in US crude and petroleum stocks.

Market	Index	Year to Date Return 31.12.06 to 09.03.07		1 Week Return 02.03.07 to 09.03.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-1.1	-0.5	1.1	1.7
US	NASDAQ	-1.2	-0.6	0.8	1.4
Europe	FT/S&P Europe Ex. U.K.	0.9	0.9	1.8	1.8
Ireland	ISEQ	1.7	1.7	3.4	3.4
UK	FTSE 100	0.4	-0.3	2.1	2.1
Japan	Topix	2.9	4.2	0.5	-0.3
Hong Kong	Hang Seng	-4.2	-4.0	-1.6	-1.0
Australia	S&P/ASX 200	2.8	2.4	0.8	1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	0.8	0.8	-0.1	-0.1

Global Equities



USA

Overview

US stocks gained strongly on the week with financial, cyclical and material stocks experiencing their biggest one-day rise since July on Tuesday.

Key Movers

Subprime mortgage sector – Fears over the possible bankruptcy of New Century Financial renewed concerns over the US subprime mortgage sector, despite the general increase in investor confidence last week. The banks share price slumped 77% on the week.

Investment banks – Other banks active in the mortgage sector managed to make some progress on the week. Lehman Brothers share price rose by over 6%, following a recent drop, while Morgan Stanley, which lends to New Century Financial, was up 6% on the week.



Europe

Overview

European markets recovered well last week with most major European markets up by roughly 2%.

EADS – The European aerospace group announced an 86% drop in full year operating profit due to the delays in producing the latest Airbus. This resulted in the share price dropping by over 4% on the week.

Volkswagen – The German carmaker raised its holding in the Swedish truck group, Scania, leading to a rise in share price on the week of over 10%.



Ireland

The Irish market rose strongly on the week, with financials leading the way. Anglo Irish Bank was up 6%, Bank of Ireland 2% and Allied Irish Bank nearly 8%.

Irish Continental Group – The share price of the company which owns Irish Ferries rose by over 20% on the week, following strong results and details announced regarding a management buy out.



Asia Pacific

Emerging markets continued to be volatile on the week, with the biggest level of weekly outflows in recent history experienced in the week to Wednesday. Markets have rallied since then. However, the Hang Seng remained down nearly 2% while the Topix gained slightly by 0.5%.

Other markets – The Australian market gained almost 1% following the rise in commodity prices, while Singapore added over 2%.

Bonds

As equity markets recovered, bond prices dropped on the week as investors ignored their safe haven status. Prices also dropped due to the decreased expectation of a US interest rate cut, due to the stronger employment data and hints of an interest rate hike by the ECB. The Merrill Lynch >5 year bond index lost 0.1% 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. They will clearly take note of any volatility in financial markets but a policy response is highly unlikely.
- The Fed left rates unchanged at 5.25% at its recent meeting - the fifth consecutive meeting it has done so. Investors continue to expect rates to be shaved by 0.25% or so by year end. The Fed remains firmly on hold for now, waiting to see how inflation develops over the coming quarter. It will be more concerned about a spill-over of problems from the sub-prime mortgage market to the broader financial system (it sees none of this yet) than general volatility in financial markets.
- The ECB hiked rates to 3.75% last week, as fully anticipated. The press conference rhetoric suggested that rates were now closer to a desired level (they were described as "moderate" after the hike rather than "low" after the previous increase). Bonds, however, are probably over-shadowed by the return of calm to equity markets and may suffer a little from the lack of safe-haven support in the near term.
- As long as global risk appetites return to previous levels, equity markets will remain reasonably supported by a strong earnings' background and favourable valuations relative to bonds. As very recent experience shows, it is likely that tighter liquidity conditions from higher interest rates will be a concern during the year and periods of volatility are likely.
- 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.

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