Weekly
Investment news

20th March 2007

EAGLE STAR

Global Overview

Turbulent equity markets
Equity markets experienced another volatile week as concerns continued over the sub-prime mortgage market in the US. Most markets saw sharp corrections last week but there was a rebound yesterday with many markets regaining losses.

Sub-prime mortgages
Investors continued to focus on concerns regarding default levels in the US sub-prime market, where mortgages are given to investors with poor credit histories. However, yesterday investors were more optimistic as they put the issue into perspective. About 10% of the total mortgage market in the US is classified as sub-prime and up to 15% of this sub-prime market may be in distress.

Economic news
In the US, there was stronger than expected industrial production data but consumer confidence numbers weakened. Inflation data showed that the annual rate remained at 2.7%.

Commodity prices bounce
Commodity prices experienced another strong week with copper rising 8% due to large stock declines and strong demand from China. Chinese industrial output rose over 18% year on year to the end of January. The oil price was also supported by a decision from OPEC to leave production levels unchanged.

Market	Index	Year to Date Return 31.12.06 to 19.03.07		1 Week Return 09.03.07 to 19.03.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-1.1	-1.9	-0.1	-1.4
US	NASDAQ	-0.9	-1.6	0.3	-1.1
Europe	FT/S&P Europe Ex. U.K.	0.3	0.3	-0.6	-0.6
Ireland	ISEQ	-0.9	-0.9	-2.6	-2.6
UK	FTSE 100	-0.5	-2.0	-0.9	-1.7
Japan	Topix	0.8	1.2	-2.1	-2.9
Hong Kong	Hang Seng	-3.5	-4.7	0.7	-0.6
Australia	S&P/ASX 200	3.4	3.9	0.5	1.4
Bonds	Merrill Lynch Euro over 5 year Govt.	1.2	1.2	0.5	0.5

Global Equities

USA

Overview
US stocks experienced a rollercoaster week hitting fresh lows for the year mid-week before subsequently bouncing back.

Key Movers
Blackstone – The private equity group is in the advanced stages of preparation for an initial public offering. Investors took it as a sign of confidence in equity markets notwithstanding the current turmoil.

Investment banks – Goldman Sachs, Lehman Brothers and Bear Stearns all reported earnings that met or beat expectations.

Carmakers – General Motors reported better fourth quarter profits but the stock fell over 5% on worries that US sales would be affected by the US economic slowdown. Ford was also down 5% on the week.

Europe

Overview

There was volatility on European markets last week with investment banks centre stage due to mergers news and US mortgage concerns.

Investment Banks – Deutsche Bank, Credit Suisse and UBS all fell sharply due to sub-prime mortgage concerns. However, they regained some ground yesterday. ABN Amro gained 10% on Monday on reports that Barclays of the UK is interested in taking over the Netherlands biggest bank.

Altadis – The tobacco group jumped over 15% following a takeover approach from Imperial Tobacco.

Akzo Nobel – The chemicals and pharmaceuticals company stock soared 20% after it announced the sale of its pharmaceutical unit to Schering Plough of the US for €11 billion.

Ireland

The Irish market suffered a sharp correction last week with the financial sector suffering the same fate as its global counterparts and eroding most of the strong gains of the previous week. AIB was down 6.8% and Irish Life fell 6.5%.

C&C - The beverage company bucked the trend rising 7% over the week. The launch of a new 750ml bottle aimed at the home market was received positively by investors.

Asia Pacific

Overview

Ripples from the US sub-prime debate caused sharp corrections on Asian markets last week. However, most markets bounced back sharply yesterday.

Hong Kong – Chinese markets rose strongly despite an increase in interest rates over the weekend. Bank of China rose as it is expected to deliver a 50% increase in profits.

Japan – The Japanese market underperformed with the banking sector declining amid earnings concerns.

Bonds

There was positive returns from bond markets last week as volatility on equity markets saw investors entering the market due to their safe haven status. The Merrill Lynch >5 year bond index gained 0.5% over the week.

Global Outlook

- Forecasters continue to expect some 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. They will clearly take note of any volatility in financial markets but a policy response is highly unlikely in the US.
- The Fed meets this week and while rates are set to stay at 5.25% for the sixth consecutive meeting investors will look carefully at any changes to the post-meeting statement. Investors continue to expect rates to be shaved by 0.25% or so by year end but the Fed remains firmly on hold for now, waiting to see how inflation develops over the coming quarter. It would be more concerned about a spill-over of problems from the sub-prime mortgage market to the broader financial system (it sees <u>none</u> of this yet) than general volatility in financial markets.
- The ECB hiked rates to 3.75% at its recent meeting, as fully anticipated. ECB comments since then have suggested that rates are 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 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.

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