

## Global Overview

### US and European equities rally

Global equities enjoyed a strong week, aided by a constant flow of M&A activity and the release of 15 British naval personnel, which helped ease geopolitical tensions.

### US Economic news

In the US, there was stronger-than-expected payroll data. There were 180,000 new jobs created in March, which well exceeded the expected figure of 135,000 and this has resulted in the unemployment rate dropping by 0.1% to 4.4%. It is widely believed that any possible interest rate cut in the US is now a more distant prospect.

### Commodities

Commodity prices rallied last week due to concerns about the supplies for copper, lead and nickel, combined with strong demand from China. Copper and lead were both well up 9% and 5% respectively over the week. Nickel was up a further 9% last week and the price has now increased by over 50% so far this year.

### Oil prices retreat

Oil prices declined last week from \$66 to \$64 per barrel as tensions between Iran and the west eased following the release of British navy personnel late last week.

Market	Index	Year to Date Return 31.12.06 to 06.04.07		1 Week Return 30.03.07 to 06.04.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.8	0.4	1.6	1.6
US	NASDAQ	2.3	0.9	2.1	2.0
Europe	FT/S&P Europe Ex. U.K.	5.0	5.0	1.9	1.9
Ireland	ISEQ	0.1	0.1	0.5	0.5
UK	FTSE 100	2.8	1.8	1.4	1.2
Japan	Topix	2.1	0.5	0.2	-1.3
Hong Kong	Hang Seng	1.2	-0.7	2.1	2.0
Australia	S&P/ASX 200	7.2	9.4	1.4	2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.3	-0.3	-0.2	-0.2

## Global Equities



### USA

#### Overview

US stocks rallied last week following positive employment data and reduced geopolitical concerns.

#### Key Movers

**Altria** – Following Altria's recent decision to spin off its holding in Kraft Foods, its share price rose by over 7%. It is also rumoured that it might dispose of its international business when results are published later this month.

**Financial Sector** – M&T Bank's share price dropped by almost 9% last week after reporting that first-quarter income would be reduced due to its exposure to risky mortgages. However, large sub-prime lender, Accredited Home Lenders, gained last week by over 4% after securing a \$1.1bn line of credit from two banks.



## Europe

### Overview

European markets rose last week following strong M&A activity. The main indices are now back close to their 6-year highs which were reached just prior to the turbulence experienced in late February.

**Carrefour** – There was speculation last week that the French retailer will break up some of its property portfolio and return cash to the shareholders. Following this the share price was up over 4%.

**Endesa** – Eon withdrew its takeover offer for the Spanish utility company last week. This was due to mounting competitive and regulatory hurdles, which resulted in Eon believing that it no longer looked like the necessary 50% share-holding would be achieved.



## Ireland

**Allied Irish Banks** – Evidence of a slowdown in the Irish housing market and a profit warning from AIB's US associate M&T, caused the bank's share price to drop almost 5% last week.

**United Drug** – A trading statement showed that first half figures are in line with management expectations. It is also expected that strong trading will continue into the second half of the year. Its share price was down 1% over the week.



## Asia Pacific

**Australia** – Australian stocks had a good week, helped by the decline in the oil price, improvement in the US housing market and the decision by their central bank to leave interest rates unchanged.

**Japan** – The Topix rose marginally last week as carmakers and consumer electronics stocks recorded gains over the week. The Topix has now recovered all its losses from the market turbulence in late February.

## Bonds

US bond prices fell last week following the better-than-expected employment data which has lessened the chance of an interest rate cut in the near future. Eurozone bonds followed US bonds lower on the week, the Merrill Lynch >5 year bond index dropped 0.2% over the week.

## Global Outlook

- Forecasters continue to expect some moderation in growth 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.
- At its last meeting the Fed held rates at 5.25% for the sixth consecutive meeting with the minutes dropping any reference to additional increases. Investors continue to expect rates to be reduced by around 0.40% by year end but the Fed remains firmly on hold for now, waiting to see how inflation and economic growth develop 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 none of this yet) than general volatility in financial markets.
- The ECB hiked rates to 3.75% at its meeting in March. 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). Investors will look to comments after this week's meeting – where no rate hike is forecast – to gauge whether this view has changed or not. Bonds have been over-shadowed by the return of calm to equity markets but have reached levels where they may gain support in the short term.
- As long as global risk appetite remains at high 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 closer to neutral in equities versus the manager average. Sectorwise, the funds are overweight industrials, while 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.