

# Eagle Star Investments

## Weekly News

16th June 2008

### Global Overview

#### Markets fall

Inflation news dominated investment markets last week resulting in significant weakness on bond markets and negative returns on equity markets also.

#### Global inflation reports

US consumer prices in the year to the end of May rose 4.2% due to the surge in oil prices. However, core inflation excluding food and oil rose just 1.8% which gave investors some encouragement. A report from France showed inflation running at 3.3%, the biggest year on year increase for 17 years.

#### Interest rate expectations

The ECB sought to ease fears of a series of rate rises in the eurozone as concerns about the slowdown in global growth intensified. The last post-meeting announcement strongly indicated that there will be a rate rise in July to combat inflation which led to speculation that there would be numerous rises before year end.

#### Commodity prices

Oil prices ranged from \$131 to \$138 last week before finishing at \$135 due to expectations of stronger US inventory levels and increased output from Saudi Arabia.

Index		Year to Date Return 31.12.07 to 13.06.08		1 Week Return 06.06.08 to 13.06.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-7.4	-12.2	-0.1	2.3
US	NASDAQ	-7.5	-12.2	-0.8	1.5
Europe	FT/S&P Europe Ex. U.K.	-16.0	-16.0	-1.8	-1.8
Ireland	ISEQ	-18.9	-18.9	-3.1	-3.1
UK	FTSE 100	-10.1	-16.3	-1.8	-0.5
Japan	Topix	-7.1	-8.7	-4.0	-4.1
Hong Kong	Hang Seng	-18.8	-23.1	-7.4	-5.3
Australia	S&P/ASX 200	-15.2	-13.9	-3.8	-3.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.9	-1.9	-2.1	-2.1

### Global Equities



#### United States

##### Overview

US markets ended the week just marginally lower helped by strong retail sales data. The US \$ recorded its best week in more than three years due to hawkish comments from US central bankers on inflation.

**Lehman Brothers** – The investment bank pre-announced a second quarter loss and subsequently announced the replacement of its chief financial and chief operating officers. The stock initially fell 20% on the week despite US fund manager, Blackrock investing in the firm.

**US housing** – The US housing slump continued with the number of foreclosure filings rising 50% in May, year on year.



## Europe

### Overview

European markets finished the week lower due to ongoing concerns over growth and inflation.

**Commerzbank** – The bank rose over 6% on the week on the back of rumours of a value enhancing merger with Dresdnerbank.

**InBev** – The brewing group announced a \$46.3 billion bid for US rival Anheuser – Busch.

**UK equities** – In the UK, homebuilding stocks were under pressure due to expectations of a poor reporting season ahead while retail stocks also underperformed due to concerns regarding a slow-down in UK consumer spending.



## Ireland

### Overview

The Irish market fell over 3% on the week with banking stocks continuing to drag the market lower. CRH was the worst performer in the top ten due to a poor UK outlook which will slow the recovery in construction.

**Elan** – The pharmaceutical company bucked the trend, rising over 5% as investors await the update on Phase II data on Elan's alzheimer's drug Bapineuzumab, which is expected over the next few weeks.



## Asia Pacific

### Overview

It was a poor week on Asian markets as inflation fears escalated. Hong Kong, Singapore and Taiwan all retreated towards levels last seen in March.

**Hong Kong** – The Hong Kong market slide over 7% as investors reacted to a rise in the bank reserve ratio in China and higher short term interest rates in the US.

## Bonds

Global bond markets suffered sharp falls last week as hawkish comments on inflation from central banks on both sides of the Atlantic took its toll. The Merrill Lynch >5 year government bond index fell 2.1% on the week.

## Global Outlook

- The central case for 2008 is for further moderation in global economic growth, with soaring oil prices adding downside risks to this picture. Already much of US data has been 'recession-like' and growth concerns will persist there. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- Current US interest rates of 2% are now expected to be the low point in rates for this cycle, with rates seen rising in the second half of this year. The Fed normally does not raise rates when the unemployment rate is still rising - as it is now. But inflation concerns are also on the Fed's radar and this may alter the historic pattern.
- The ECB's rhetoric has become more hawkish amid higher-than-forecast inflation data. The ECB now seems quite close to raising rates further, a turnaround from the cuts which investors bet on earlier in the year.
- After sharp price falls, following higher than expected inflation, government bonds are now more reasonably valued, and may also get safe-haven support during any further equity market volatility.
- Worries about the banking system have eased significantly and this allowed equity markets to rebound strongly from the March lows. Further volatility in equity markets is likely as investors assess the impact of the credit crunch and cyclical slowing of the global economy.
- The US dollar remains the primary focus of currency markets but has now regained valuation support versus European currencies. A volatile period of range trading may be the pattern for the next few weeks, especially in the midst of further ECB interest rate tightening.
- At the moment the funds are underweight equities and slightly long bonds versus the manager average. Within equity sectors technology is an overweight while financials are underweight. Geographically the funds have an underweight position in Ireland, Europe and the Pacific Basin, are overweight in the US and are more neutral in Japan and the UK.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star / Zurich. Advice should always be sought from an appropriately qualified professional.