# **Eagle Star Investments**

## Weekly News

7th July 2008

## Global Overview

#### Markets fall

Equity markets across the world suffered another disappointing week after numerous record highs in the oil market, poor economic figures and concern over Q2 earnings results, which start this week.

#### **US** services data

The ISM survey revealed that the US service sector unexpectedly contracted in June. Inflationary pressures are a major concern for the economy and investors fear a period of stagflation - low growth and high inflation – may impact further on the economy.

#### Interest rates

As expected, the European Central Bank raised the benchmark interest rate by 0.25%, to a seven-year high of 4.25%. This hike was in response to rising inflation due to energy and food prices. Markets took some comfort from the ECB President's comment that it has no bias on rates - one way or another - from here.

#### **Commodity prices**

The oil price reached another record high of over \$146 per-barrel on Thursday, after a fall in US crude supplies and geopolitical tensions between Israel and Iran. It retreated on Friday to finish the week at \$145 per-barrel.

	Index	Year to Date Return 31.12.07 to 04.07.08		1 Week Return 27.06.08 to 04.07.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-14.0	-20.1	-1.2	-0.8
US	NASDAQ	-15.3	-21.3	-3.0	-2.7
Europe	FT/S&P Europe Ex. U.K.	-23.5	-23.5	-2.8	-2.8
Ireland	ISEQ	-30.0	-30.0	-8.2	-8.2
UK	FTSE 100	-16.2	-22.2	-2.1	-2.3
Japan	Торіх	-12.1	-14.5	-1.7	-1.8
Hong Kong	Hang Seng	-23.0	-28.4	-2.8	-2.4
Australia	S&P/ASX 200	-19.8	-18.2	-3.0	-2.5
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.7	-0.7	0.3	0.3

## **Global Equities**



#### **United States**

#### **Overview**

US markets fell last week, following weak economic data and worries over Q2 earnings. The S&P 500 has now gone below its March lows

**General Motors** – GM's shares were down over 12% after Merrill Lynch said the company would come to the capital markets to bolster its liquidity position.

**Starbucks** – The coffee company announced plans to close 600 underperforming US stores and cut 12,000 jobs in an effort to cope with the economic downturn and increased competition. The stock fell 4.9% on the week



#### Europe

#### Overview

European markets declined last week as the ECB moved to fight inflation with a quarter-point rise in interest rates.

Marks & Spencer – Like-for-like sales of the group were down 5.3% since announcing full-year results in May. This was due to market conditions becoming more challenging amid weakening consumer confidence levels in the UK. Its share price plummeted 32% over the week.

**Taylor Wimpey** – The international housing and development group saw its value cut in half last week, after it failed to raise the extra capital it required, citing tough market conditions. Many of its rivals fell, based on its outlook for the sector.



#### Ireland

#### **Overview**

The Irish market finished another week in negative territory as confidence in the banking and housing sectors was dealt further blows: firstly by S&P's downgrade of Irish Life & Permanent and secondly, by Taylor Wimpey's outlook for construction.

**Irish Life & Permanent** – Irish Life & Permanent's value was 19% lower over the week, as Standard & Poor's downgraded the bank's long-term credit rating, from A+ to A, amid a weakening outlook for banking stocks.

**Building sector** – The building sector suffered a sell-off after Taylor Wimpey slumped in the UK and construction activity in Britain declined at its fastest rate in 11 years, in June. McInerney, Grafton & Kingspan all finished the week lower.



#### Asia Pacific

#### **Overview**

Asian markets finished the week lower, as inflation fears remain and concern over slower demand from the US hurt stocks. A stronger dollar helped markets pare some of their losses.

**Australia** – A fall in metals' prices led to mining stocks retreating over the week. This resulted in the market dropping by 3%

### **Bonds**

The ECB raised interest rates by a quarter-point to 4.25% last week. However, comments from the ECB President that Eurozone growth is a concern, helped bonds gain. The Merrill Lynch >5 year government bond index rose 0.3% 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 is '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. Japan's lack of exposure to the credit crunch has been a positive.
- Current US interest rates of 2% are expected to be the low point for this cycle, with rates seen rising in the second half of this year. The Fed normally doesn't raise rates when the unemployment rate is rising as it is now. But inflation concerns are also on the Fed's radar and this may alter the historic pattern.
- Despite a clear loss of growth momentum in the eurozone economy, the ECB's rhetoric has become more hawkish amid higher-than-forecast inflation data. After last week's 0.25% rate increase the ECB says that it has no bias on rates one way or another from here. However investors are still anticipating at least a further 0.25% increase by year end.
- 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.
- Equity markets have recently eroded much of the very strong gains recorded after the Bear Stearns rescue. Further volatility in equity markets is likely as investors assess the impact of the soaring oil price, the credit crunch and the cyclical slowing of the global economy.
- The US dollar 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, financials and some of the industrial and consumer areas are underweight, while telecoms are overweight. Geographically the funds have an underweight position in Ireland, Europe and the Pacific Basin, and are more neutral in the US, 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.

