

Global Overview

Equity markets mixed

There were mixed returns on global equity markets with early gains eroded as the week progressed due to concerns about the economic outlook and further weakness in banking stocks.

UK interest rates

The tone of the minutes from the last Bank of England MPC meeting proved more hawkish than the market had expected. The vote was split three ways raising the probability that the Bank might tighten monetary policy at its August meeting.

US economic data

There was weaker than expected housing data from the US on Thursday with existing home sales declining to a ten year low. Unemployment data was also negative with a steep increase in initial jobless claims. On a positive note, there was upbeat data on durable goods sales and new home sales later in the week.

Oil prices

Oil prices continued to weaken last week as the impact of slower economic growth on consumer demand escalated. Oil hit a seven week low of \$122.50 per barrel during trading on Friday and finished the week at \$125.

Index		Year to Date Return 31.12.07 to 25.07.08		1 Week Return 18.07.08 to 25.07.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-14.3	-20.5	-0.2	0.7
US	NASDAQ	-12.9	-19.1	1.2	2.2
Europe	FT/S&P Europe Ex. U.K.	-22.5	-22.5	0.5	0.5
Ireland	ISEQ	-29.7	-29.7	-0.4	-0.4
UK	FTSE 100	-17.1	-22.8	-0.4	0.1
Japan	Topix	-12.0	-15.4	3.7	3.5
Hong Kong	Hang Seng	-18.2	-24.1	4.0	4.9
Australia	S&P/ASX 200	-21.6	-20.5	2.7	2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.0	-1.0	0.1	0.1

Global Equities



United States

Overview

An early rally in financial and airline stocks combined with a reduction in oil prices was quickly wiped away by ongoing uncertainty regarding the US economy and mixed earnings results.

Corporate earnings – The earnings season was in full swing last week with 229 companies in the S&P 500 delivering results. Overall, reported earnings are down 24%, however, excluding the banking sector earnings are actually up 10%.

Technology – The technology sector held up relatively well with the NASDAQ rising 1.2% due to positive earnings. Juniper Networks delivered excellent results with a 40% rise in Q2 profits which caused the share price to jump 18% over the week. Google and Ebay were up 2% and 6% on the week respectively after their declines the previous week.

Mortgage sector – There was continued volatility in the mortgage sector as S&P warned it may cut their ratings on mortgage giants Fannie Mae and Freddie Mac. The stocks fell 14% and 10% respectively.



Europe

Overview

Eurozone markets ended the week in positive territory despite poor economic data releases. The Eurozone Purchasing Managers Index reading contracted more than expected while in Germany, business confidence data was also weak..

Munich Re – The reinsurance giant warned of a sharp decline in profits due to substantial writedowns on its equity investments.

HBOS – Takeover speculation fuelled a sharp rally in HBOS stock over the week as Spanish company BBVA was speculated as a potential bidder.

Credit Suisse – Credit Suisse shares rose despite delivering a 62% fall in earnings. The fall was less than had been expected by investors.

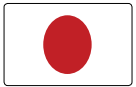


Ireland

Overview

The Irish market declined marginally last week following substantial gains over the previous week.

Banking stocks – Irish Life & Permanent fell 11% due to profit-taking following a 32% rise in the previous week. Anglo Irish Bank shares rose 12% underpinned by Sean Quinn converting contracts for difference to ordinary shares which could represent up to 15% of the banks shares.



Asia Pacific

Overview

Asian markets had a strong week with Hong Kong and Japan doing well supported by speculation that the Chinese may relax their monetary and fiscal policies.

India – The Indian market surged after confidence in the government was reinforced by a vote in parliament.

Bonds

Eurozone bonds were steady last week as weak economic data from Germany led to ongoing concerns regarding equities. The Merrill Lynch >5 year government bond index rose 0.1% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth, with the cumulative effect of high 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. 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 by 0.25% by year end. 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 is very concerned about inflation data. While it says that it has no bias on rates - following its recent 0.25% rate increase to 4.25% - 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 eroded the very strong gains recorded after the Bear Stearns rescue in March. Further volatility is likely as investors assess the impact of oil prices, 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 while investors digest the recent ECB rate hike and the possibility of any further moves.
- At the moment the funds are underweight equities and slightly long bonds versus the manager average. Within equity sectors financials and basic materials are underweight, while other sectors are closer to neutral. Geographically the funds have an underweight position in Ireland and the Pacific Basin, and are more neutral in the US, UK, Europe and Japan.

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.