

Weekly Investment News

14th January 2008



EAGLE STAR

A member of the  Zurich Group

Global Overview

Market volatility continues

Equity markets fell further last week as concerns regarding the global economic slowdown continued to dominate investor sentiment.

Interest rates

Both the European Central Bank and the Bank of England held interest rates unchanged, at 4% and 5.5% respectively, when they met last week. The ECB president, Jean-Claude Trichet, stated that there was a "tightening bias towards interest rates" to combat inflation, while also stating that there had been no discussion about cutting rates.

Consumer spending

Fears of a slowdown in consumer spending in the US and UK were raised after some large retailers reported lower-than-expected sales growth over the Christmas period and lowered earnings forecasts. These included Tiffany & Co, Gap and Anne Taylor in the US, along with Marks & Spencer in the UK.

Commodities

Fears over slower global growth caused downward pressure on the price of oil, as it continued to fall from its recent peak of just over \$100 per-barrel. The oil price finished the week at \$93 per-barrel, almost 5% lower over the week. Precious metals, gold and platinum, hit record highs as investors looked for a hedge against inflation.

Index		Year to Date Return 31.12.07 to 11.01.08		1 Week Return 04.01.08 to 11.01.08	
		Local Currency %	Euro €	Local Currency %	Euro €
US	S&P 500	-4.6	-6.1	-0.8	-1.1
US	NASDAQ	-8.0	-9.5	-2.6	-2.9
Europe	FT/S&P Europe Ex. U.K.	-5.0	-5.0	-1.8	-1.8
Ireland	ISEQ	-3.9	-3.9	-4.5	-4.5
UK	FTSE 100	-4.0	-6.6	-2.3	-3.3
Japan	Topix	-6.7	-5.7	-2.4	-3.1
Hong Kong	Hang Seng	-3.4	-5.0	-2.4	-2.8
Australia	S&P/ASX 200	-5.7	-5.5	-5.2	-3.5
Bonds	Merrill Lynch Euro over 5 year Govt.	1.5	1.5	0.1	0.1

Global Equities



United States

Overview

Worries over the extent of the US economic slowdown dominated investor sentiment last week, after retailers reported weaker sales due to slowing consumer spending.

Bank of America – Concerns that Countrywide Financial may have needed to seek bankruptcy protection caused Countrywide's share price to fall by over 20% last week. Bank of America subsequently stepped in to purchase the troubled mortgage firm in a deal worth \$4bn. Bank of America's share price fell 2% on the back of this.

Retail sector – Poor sales caused many US retailers to cut their earnings forecasts as the lower economic outlook spread to consumer spending. Luxury jewellers, Tiffany & Co dropped almost 14% over the week, while popular clothing chain Gap fell over 12%.

McDonald's – Concerns that the restaurant sector would suffer, if consumers cut back their spending resulted in a stockbroking firm cutting the restaurant's rating. McDonald's share price fell nearly 5% over the week.



Europe

Overview

European equity markets fell sharply last week due to fears of a recession in the US.

Marks & Spencer – After releasing a trading statement stating it had experienced its worst quarterly sales in almost two years, along with more to come, the bellwether of the UK retail sector's share price fell by over 20%.

Pharmaceutical sector – The pharmaceutical sector experienced one of its best weeks in over three years. It is seen as being less affected by a macro economic slowdown, compared to other sectors. British pharma group AstraZeneca and Switzerland's Roche were among the biggest gainers, with both their share prices rising by over 8%.



Ireland

Overview

The Irish market fell in line with most European markets last week, led by banking stocks.

Banking stocks – Concerns that the slowdown in the US will result in a recession caused banking stocks worldwide to lose value. In Ireland, Bank of Ireland and Anglo Irish Bank were the main losers, falling by over 7% and 6% respectively.



Asia Pacific

Overview

Concerns that slowing growth worldwide will impact on demand from the region, caused Asian markets to fall heavily last week.

Japan – Property stocks in Japan fell last week after a warning from Credit Suisse of a slowdown in foreign funds into the sector due to economic weakness.

Bonds

Eurozone bonds traded within a range last week after the ECB held rates constant and Jean-Claude Trichet warned that there was a "tightening bias" due to the upward trend in inflation. The Merrill Lynch >5 year government bond index was up 0.1% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth. While a 'soft landing' in the US remains the most likely outcome, markets will continue to focus on downside risks to growth. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- Slowing growth and housing market pressures argue for further interest rate cuts in the US. Indeed investors now expect a further 0.5% reduction at the end of January. Despite continued hawkish comments from the ECB, current eurozone rates are likely to be at their peak, although they may not be cut until towards the end of the year.
- High food and energy prices continue to be a worry to policy-makers and a somewhat tricky environment for bond investors.
- The prospect of lower short rates and reasonable valuations supports global equities, although there are concerns about the health of the banking sector and the overall earnings' outlook. Expect further volatility over the next twelve months.
- The US dollar remains the primary focus of currency markets. After last year's weakness, the US dollar now has valuation support versus European currencies. The slow pace of Chinese currency appreciation is likely to persist.
- At the moment, the funds are slightly overweight in bonds and underweight in equities versus the manager average. Sector positions are reasonably balanced although financials remain underweight. Geographically the funds have an underweight position in Ireland and Japan and more of a neutral stance in the US, UK and Europe. The Pacific Basin remains with a reduced overweight position.

This outlook of 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.

Eagle Star Life Assurance Company of Ireland Limited

Eagle Star House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.eaglestarlife.ie

Eagle Star Life Assurance Company of Ireland Limited is regulated by the Financial Regulator. Intended for distribution within the Republic of Ireland.