Weekly Investment News

18th February 2008

EAGLE STAR

A member of the Zurich Group

Global Overview

Markets retreat

Most equity markets were ahead, in what was a volatile week following mixed economic data in the US and downbeat comments on the economy from Federal Reserve President Ben Bernanke.

Economic data

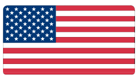
On Wednesday, US retail data revealed a rise in sales by 0.3% since last month, which was surprisingly higher than the 0.3% decline forecast. This good news was offset by negative data which showed that import prices rose by 1.7% over the month, resulting in a 13% increase in prices over the past year. This was as a result of higher food and commodity prices.

Commodities

Commodity markets had a strong week as investors brushed aside fears for the US economy. Platinum surged almost 10% to an all-time high after disruption to South African production. Oil also rallied over 5% to finish the week at just over $96 per-barrel.

	Index	Year to Date Return 31.12.07 to 15.02.08		1 Week Return 08.02.08 to 15.02.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-8.1	-8.6	1.4	0.3
US	NASDAQ	-12.5	-13.0	0.7	-0.4
Europe	FT/S&P Europe Ex. U.K.	-13.4	-13.4	1.0	1.0
Ireland	ISEQ	-6.6	-6.6	-0.9	-0.9
UK	FTSE 100	-10.4	-12.0	0.1	-0.5
Japan	Topix	-9.5	-6.6	3.7	2.4
Hong Kong	Hang Seng	-13.2	-13.7	2.9	1.8
Australia	S&P/ASX 200	-11.6	-9.1	-0.9	-0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	2.8	2.8	-0.8	-0.8

Global Equities



United States

Overview

Despite downbeat comments regarding economic growth from Federal Reserve President, Ben Bernanke, US stocks finished the week in positive territory.

Stockbrokers – Stockbroking companies finished the week lower after Lehman Brothers cut its first-quarter earnings for the sector and warned of the impact of further writedowns. Goldman Sachs was affected most, falling almost 5% over the week, after its earnings estimate was cut by more-than-half.

Kraft foods – After revealing that Warren Buffet's Berkshire Hathaway had amassed 8.6% in Kraft Foods last year, the food company's share price rose by over 8%.

Bond insurers – Despite positive outlooks from rating company Moody's, bond insurers were given three to five days to find fresh capital or face potential break-up. This resulted in both MBIA and Ambac Financial falling heavily over the week.

Europe

Overview

European markets lost some of their early week gains as heightened credit concerns affected banking stocks.

Banking stocks – Sentiment towards the sector continued to sour after further writedowns and credit concerns impacted on profits. UBS declined 12% over the week after the bank disclosed new exposures to US mortgage related instruments.

Carmakers – A better-than-expected earnings report from Peugeot helped car manufacturers stocks gain last week, as optimism rose that the stocks had been over-sold over the past few weeks. Renault gained over 3%, while Peugeot rose almost 8%.

Ireland

Overview

The Irish market fell as credit concerns weighed on banking stocks.

Smurfit Kappa – Despite better-than-expected earnings results, Smurfit Kappa's share price fell after management indicated that it expects ''modest'' growth in 2008. The share price was down 1.6% on the week.

Elan – Elan posted better-than-expected Q4 2007 earnings, driven by the Tysabri product. However, 2008 forecasts were reduced due to higher research & development costs. Elan's share price fell almost 6% over the week.

Bank of Ireland – Bank of Ireland's trading update led to a downgrade of its March 2008 earnings by around 4%. This was due to sterling foreign exchange moves, lower equity markets affecting its life business earnings and higher structured investment vehicle writedowns. Its shares ended the week 3% lower.

Asia Pacific

Overview

Most Asian markets finished the week higher after surprisingly strong Japanese fourth-quarter growth and increased appetite for risk following good retail sales data in the US. Analysts did warn, however, that weak personal consumption in Japan may drag down growth in 2008.

Bonds

Eurozone bonds fell last week after investors bought back into equities following surprisingly strong retail sales data in the US. The Merrill Lynch >5 year government bond index was down 0.6% 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 central case of most economists, markets continue to focus on recession risks. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- Slowing growth, housing market pressures and deteriorating financial conditions argue for further interest rate cuts in the US, with investors expecting at least an additional 0.5% reduction over the next few weeks. The ECB has finally changed its tone and effectively confirmed that rates have peaked, although they may not be cut for some time yet.
- High food and energy prices continue to be a worry to policy-makers and provide a somewhat tricky environment for bond investors, although bonds will continue to get safe-haven support during equity market falls.
- Lower interest rates offer valuation support to global equities, but this factor has been secondary to more pressing concerns about the health of the banking sector and the overall earnings' outlook. Further volatility is highly likely.
- 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 neutral in bonds and slightly 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, overweight in the US and more of a neutral stance in the Pacific Basin, UK and Europe.

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