

# Weekly Investment News

25th February 2008



EAGLE STAR

A member of the  Zurich Group

## Global Overview

### Mixed markets

It was a mixed week for equity markets after weak US economic data, higher commodity prices and rumours of a possible rescue package for the troubled bond-insurers.

### US economic data

Concern for the US economy was heightened after the Federal Reserve lowered its 2008 economic forecast. This, along with the regional index of manufacturing activity which fell further towards recession levels, increased investors' expectations that further rate cuts are in store. However, the Fed will have to contend with rising inflation after the US CPI rose faster than expected for the second month running.

### Eurozone economic data

The Eurozone Manufacturing Purchasing Managers Index for February rose more-than-expected, after hitting a 4½ year low last month. Where a figure above 50 indicates expansion in the Eurozone, it recorded 52.3, up from 50.6 in January. Despite this and a rising inflation forecast from the ECB, the ECB is still expected to cut interest rates in the second half of 2008.

### Commodities

The increased risk of a recession, after lower US economic data, caused investors to turn to commodities as a hedge against the weakening dollar. This pushed the price of oil to an all time high of \$101.32 per-barrel mid-week, before easing back to finish at \$99, almost 4% higher on the week.

	Index	Year to Date Return 31.12.07 to 22.02.08		1 Week Return 15.02.08 to 22.02.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-7.9	-9.3	0.2	-0.8
US	NASDAQ	-13.2	-14.6	-0.8	-1.8
Europe	FT/S&P Europe Ex. U.K.	-12.8	-12.8	0.7	0.7
Ireland	ISEQ	-7.7	-7.7	-1.2	-1.2
UK	FTSE 100	-8.8	-11.0	1.7	1.1
Japan	Topix	-10.5	-7.9	-1.0	-1.3
Hong Kong	Hang Seng	-16.2	-17.5	-3.5	-4.5
Australia	S&P/ASX 200	-12.3	-9.4	-0.8	-0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	2.4	2.4	-0.4	-0.4

## Global Equities



### United States

#### Overview

Weak economic data, rising inflation and recession worries caused concern to US markets last week.

**Hewlett Packard** – The tech company's share price rose strongly after earnings rose more than expected and it raised its sales guidance for 2008. Hewlett Packard finished the week over 8% higher.

**Financial sector** – The financial sector came under pressure late last week as mortgage giants Freddie Mac and Fannie Mae were downgraded by stockbroker, Merrill Lynch. However, the sector was helped by rumours of a possible financial package to help bond-insurers, Ambac Financial and MBIA.



## Europe

### Overview

Strong earnings results and a rise in the Eurozone Manufacturing PMI, helped most markets finish the week higher.

**Société Générale** – The French bank recorded a Q4 loss of over €3bn, while also hinting at the possibility of more writedowns to come. Its share price fell almost 10% over the week.

**ING Bank** – After announcing lower-than-expected writedowns and reassurance as to the stability and resilience of its capital structure, the Dutch insurance conglomerate's share price rose by 12% on the week.

**EDF Energy** – Shares in the energy company slid almost 10% after announcing that profits for 2008 will not meet prior analyst expectations.

**Nestlé** – Nestlé demonstrated the strength of its product platform and ability to manage strong cost-inflation with a very good Q4, where revenues and profitability expanded ahead of expectations. The stock advanced 4% over the week.



## Ireland

### Overview

The Irish market fell as financial stocks remain under pressure.

**AIB** – Although AIB's earnings were in line with forecasts, it reassured the market and it had a positive week, rising almost 5%.



## Asia Pacific

### Overview

Asian markets finished the week lower, pressured by weak economic data in the US, higher commodity prices and further credit concerns among financial companies. Hong Kong's Hang Seng index has declined 16% year to date.

## Bonds

Eurozone bonds fell for the second week running, after the ECB raised its inflation expectations for 2008 and the Manufacturing Purchasing Managers Index showed an increase from last month's lows. The Merrill Lynch >5 year government bond index was down 0.4% 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.

This outlook 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](http://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.