Weekly Investment News

6th May 2008

EAGLE STAR

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Global Overview

Markets gain

Equity markets worldwide had a strong week as data from the US raised optimism that the world's largest economy would weather the economic slowdown.

US interest rates

As expected, the Fed cut its official interest rate by a further 0.25% to 2%. The Fed's statement, which made reference to the "substantial" easing to date, raised expectations that the Fed will now pause at its next meeting in June.

US economic data

US GDP data showed that the economy expanded at a 0.6% annual rate in the first quarter. This boosted investors' confidence that the US economy would avoid a recession. This was subsequently followed by positive US manufacturing activity, personal consumption data and employment figures, which added weight to this view.

Oil price & dollar

As speculation grew that the next move in US interest rates will be up, the dollar staged a rally against major currencies. The €/$ rate at the end of the week was just above 1.54. Following this, oil prices retreated from record highs, finishing the week at just over $116 per barrel.

	Index	Year to Date Return 31.12.07 to 02.05.08		1 Week Return 25.04.08 to 02.05.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-3.7	-8.9	1.2	2.4
US	NASDAQ	-6.6	-11.7	2.2	3.5
Europe	FT/S&P Europe Ex. U.K.	-9.7	-9.7	2.0	2.0
Ireland	ISEQ	-6.6	-6.6	4.8	4.8
UK	FTSE 100	-3.7	-9.4	2.0	2.9
Japan	Topix	-6.7	-6.2	2.8	3.2
Hong Kong	Hang Seng	-5.7	-10.7	2.8	4.1
Australia	S&P/ASX 200	-10.1	-9.3	2.0	3.6
Bonds	Merrill Lynch Euro over 5 year Govt.	1.2	1.2	0.2	0.2

Global Equities

United States

Overview

US equity markets hit their highest level of the year after positive GDP data and expectation-beating employment figures.

Wrigley – The announcement that confectionery giant, Mars, is going to buy Wrigley for $23bn, sent Wrigley's shares soaring. It finished the week nearly 22% higher.

Citigroup – On Tuesday, Citigroup announced plans to sell $3bn of stock to bolster its capital levels, after billions of dollars in subprime mortgage write-downs and other credit charges. After demand outstripped supply, it boosted the sale to $4.5bn. Citigroup's shares finished the week marginally lower.

ExxonMobil – The oil giant announced Q1 profits of almost $11bn as oil prices hit record-highs. However, it fell short of analysts' expectations, as weak production and low refining margins took their toll on profits. Its share price fell by 3% on the week.

Europe

Overview

European markets gained for the third successive week after GDP data in the US was better-than-expected. Banking stocks led the way as investors believe the worst of the credit crisis may be over. Oil stocks also performed strongly with both BP and Royal Dutch Shell beating Q1 earnings' expectations.

Alcatel Lucent – The world's largest maker of telecommunications equipment posted a fifth straight quarterly loss, one which was worse than analysts expected. It also gave a poor outlook, warning of falling capital expenditure, and highlighted the impact of the rapid weakening of the US $ on revenues. This caused its share price to slide by almost 4% on the day.

Siemens – The industrial conglomerate's share price rose by almost 3% after its quarterly results came close to meeting expectations, despite March's profit warning. Rising orders and cost-cutting measures cheered investors and its share price finished the week 3% higher.

Ireland

Overview

The ISEQ followed European markets higher, rising by almost 5%. Anglo Irish Bank and Ryanair led the way over the week.

Icon – Clinical research firm, Icon, announced a 48% rise in first-quarter profits, while also upping its 2008 forecasts. Its share price finished the week almost 10% higher.

Asia Pacific

Overview

Asian markets continued the strong rallies from their mid-March lows after positive economic data from the US boosted investor sentiment worldwide.

Japan – The Bank of Japan cut its economic growth forecast for 2008, while also raising its inflation expectations. It was seen positively as it was the first report which omitted any reference to raising interest rates in over two years.

Bonds

Eurozone bonds rose marginally as inflation eased slightly and European investor confidence fell. Investors are hoping the deteriorating economic outlook for the region may cause the ECB to change its stance on interest rates. The Merrill Lynch >5 year government bond index rose 0.2% on the week.

Global Outlook

- Most economists are looking for global growth to moderate during the year after a prolonged period of strength. Some of the US data has already been 'recession-like' and investors will continue to focus on growth risks, regardless of whether or when a recession is actually declared. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- Expectations for US interest rates have changed significantly in the past few weeks. Investors expect last week's reduction, to 2%, to mark the low point of the cycle, with rates rising back above 2% before year end. Meanwhile, the ECB's rhetoric remains quite hawkish amid higher-than-forecast inflation data; at best, rates are likely to stay on hold for some time to come.
- High food and energy prices continue to be a worry for policy-makers and provide a somewhat tricky environment for bond investors. Bonds do not provide a lot of value at the moment, but could get safe-haven support during any further equity market volatility.
- Worries about the banking system have been eased by measures taken by central banks and policymakers and this has allowed equity markets to rebound over 10% from the mid-March low. Further volatility is likely while investors determine the earnings outlook for the overall market.
- The US dollar remains the primary focus of currency markets. While the US dollar now has valuation support versus European currencies, it might continue to struggle until clear signs of a cut in eurozone interest rates emerge.
- At the moment, the funds are close to neutral in both bonds and equities versus the manager average. Sector positions are reasonably balanced, although oil & gas and telecoms are overweight. Geographically, the funds have an underweight position in Ireland and Europe, are overweight in the US and the Pacific Basin and are more neutral in the UK and Japan.

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