

Eagle Star Investments

Weekly News

5th August 2008

Global Overview

Equity markets mixed

There were mixed returns on global equity markets last week with poor economic data releases combined with volatile oil prices cancelling out the modest gains made earlier in the week.

UK economic data

A succession of weakening economic and consumer related data combined with poor housing market sentiment suggest that the outlook for the UK economy is looking bleaker.

US economic data

The US unemployment rate rose from 5.5% to 5.7% – the highest in more than four years as employers cut jobs again in July, increasing the threat of a deeper economic slowdown. However, on a positive note, the Federal Reserve has extended its emergency liquidity to Banks through to January 2009.

Oil prices

Oil prices were volatile as fears about deteriorating demand waxed and waned. The price of crude oil finished the week at just over \$125 a barrel after earlier reaching above \$128. Prices have declined significantly from their high of \$147 in July.

Index	Year to Date Return 31.12.07 to 01.08.08		1 Week Return 28.07.08 to 1.08.08		
	Local Currency %	Euro %	Local Currency %	Euro %	
US	S&P 500	-14.2	-19.6	0.2	1.1
US	NASDAQ	-12.9	-18.4	0.0	0.9
Europe	FT/S&P Europe Ex. U.K.	-23.2	-23.2	-0.7	-0.7
Ireland	ISEQ	-41.0	-41.0	-16.1	-16.1
UK	FTSE 100	-17.1	-22.6	0.0	0.1
Japan	Topix	-13.7	-16.0	-2.0	-0.8
Hong Kong	Hang Seng	-17.8	-23.0	0.5	1.4
Australia	S&P/ASX 200	-22.7	-23.1	-1.3	-3.2
Bonds	Merrill Lynch Euro over 5 year Govt.	1.0	1.0	2.0	2.0

Global Equities



United States

Overview

The US markets experienced a volatile week due to swings in oil prices and growing concerns about the outlook for corporate earnings. A government report showing that US employers cut jobs for the seventh straight month in July compounded the markets' angst.

Earnings – General Motors, the largest car maker in the US announced a quarter two loss of \$15.5bn, four times larger than analysts had expected. The company cited the cost of labour disputes and the fall in domestic sales as the factors attributing to the weak results.

Financial sector – Financials were in fact the week's best performers climbing 4%. Bank of America had the most positive influence on the markets rising nearly 13% over the course of the week.



Europe

Overview

European markets finished the week lower due to ongoing concerns about poor economic data releases and weaker earnings reports. Concerns were raised about the German economy heading into a recession due to a lack of competitiveness. Elsewhere, the negative picture continued with surveys suggesting a negative contraction in the UK and Swiss economies.

Automobile sector – The German luxury car maker BMW warned that it will not be able to reach its 2008 targets, after posting a drop in first-half profits. Steep rises in oil and raw material prices, the weakness of the US dollar and the impact of the global financial crisis, were the key factors attributed to the weaker results.

Airline sector – Airline stocks gained last week as Spain's Iberia and the UK's British Airways confirmed they were holding talks with the hope of a merger before year-end and with the fall in oil prices.

Mining Sector – Rio Tinto, the world's third largest mining company slipped 5.5% whilst BHP Billiton, the world's largest, fell over 5%, due to the ongoing concerns regarding global demand.



Ireland

Overview

The Irish market endured its worst single session, briefly falling below the key psychological 4,000 point level for the first time in over five years. This decline was primarily attributed to the fall in Elan. The drug firm had accounted for approximately 17% of the ISEQ weighting and now accounts for just under 7%.

Pharmaceutical sector – Elan shares finished the week down a massive 65% after disappointing trial data releases on its Alzheimer's drug, Bapineuzumab and the announcement of negative side effects on two patients using its MS drug, Tysabri.

Banking sector – Irish Life & Permanent advanced over 3% after the group finalised a €3bn refinancing of term debt that matures in the current quarter. AIB declined over 4% after suggesting that its full-year earnings per share could drop by as much as 10% due to bad debt losses.

Airline sector – Ryanair plunged over 27% after the carrier reported a heavy first quarter loss, warning that it could suffer an underlying loss of up to €60m for the full year due to high fuel costs.



Asia Pacific

Overview

Asian markets were mixed with the Nikkei 225 down 1.8% but the Hang Seng Index managed a gain of 0.5%.

China – Growth in Chinese manufacturing continued in July but output and new orders increased at a slower rate.

India – The Reserve Bank of India unexpectedly increased interest rates to 9% in a bid to ward off inflation.

Bonds

Bonds prices advanced strongly last week as weaker economic data from both Europe and the US limited progress on equity markets and investor concerns regarding economic recession intensified. The Merrill Lynch >5 year government bond index rose 2% 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 being '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 currently expected to be increased slightly by year-end. The Fed normally doesn't raise rates when the unemployment rate is rising – as it is now. But inflation concerns have been high on the Fed's agenda and this may alter the historic pattern.
- Despite a clear loss of growth momentum in the eurozone economy, the ECB remains pre-occupied with inflation data. While it says that it has no bias on rates – following its last 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 in the second quarter, following higher than expected inflation, government bonds became more reasonably valued; they continue to get safe-haven support during equity market volatility.

- Equity markets have re-traced all of the very strong gains recorded after the Bear Stearns rescue in March. Further volatility is likely as investors assess the impact of the prior oil price increases, the credit crunch and the cyclical slowing of the global economy. Oil has now fallen over 15% from its recent peak and an acceleration in this trend may begin to offer some support to broad equity markets.
- The US dollar has now regained valuation support versus European currencies. A volatile period of range trading is the most likely pattern over the next while as investors assess the willingness of the relevant central banks to alter interest rates over the coming months.
- 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 are more neutral in the US, UK, Europe, Pacific Basin 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.

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.zurich.ie

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