



7th August 2007

Global Overview

Turbulent equity markets

There were further declines on most equity markets last week as concerns regarding the US sub-prime mortgage market escalated.

Interest rates

The European Central Bank met last week and held interest rates at 4.0%. However, in order to try and curb eurozone inflation, Jean-Claude Trichet signalled once again that an increase may be required in September. The Bank of England held rates at 5.75% but a further increase before the end of the year is expected.

US employment and business sentiment data

There was disappointing US economic data released late last week which affected markets. The number of new jobs in July was lower than June and the unemployment rate rose by 0.1%, while the key ISM manufacturing and services sentiment surveys both fell over the month.

Oil prices

The oil price hit a record high of almost \$79 per barrel last Wednesday, following increased demand in the US and Japan, along with supply concerns due to the approaching hurricane season. Prices eased by the end of the week to finish at just under \$76 per barrel.

Market	Index	Year to Date Return 31.12.06 to 03.08.07		1 Week Return 27.07.07 to 03.08.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.0	-3.3	-1.8	-2.8
US	NASDAQ	4.0	-0.5	-2.0	-3.1
Europe	FT/S&P Europe Ex. U.K.	3.2	3.2	-0.2	-0.2
Ireland	ISEQ	-8.6	-8.6	2.9	2.9
UK	FTSE 100	0.1	-0.1	0.2	-0.2
Japan	Topix	-0.5	-4.4	-1.6	-2.5
Hong Kong	Hang Seng	12.9	7.3	-0.1	-1.3
Australia	S&P/ASX 200	6.2	10.4	-1.0	-1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.0	-1.0	0.2	0.2

Global Equities



United States

Overview

The US market suffered sharp declines last week following disappointing economic data and continuing sub-prime woes.

Key Movers

American Home Mortgage – The large mortgage lender announced that it may have to cease operating due to the turmoil in the sub-prime credit market which has caused its backers to cut credit lines. Its share price fell by 93% over the week.

Bear Stearns – The financial giant's share price tumbled by another 8.6% last week on the back of further concern regarding its three hedge funds which are exposed to the sub-prime mortgage market crisis.

Earnings news – There were positive earnings results from many companies. Walt Disney reported a rise in quarterly profit after renewed strength in its TV and theme park operations. There were also better-than-expected results at Viacom which helped its share price rise by 3%.



Europe

Overview

European market losses continued last week due to the credit market turmoil in the US which has affected European banks.

Financials – Sub-prime concerns caused the German bank, Commerzbank, to announce €0m in losses. This resulted in its share price falling by over 8%. IKB issued a shock profit warning early last week relating to its sub-prime exposure; this caused a drop in its share price by 41%.

Volkswagen – After announcing first-half forecast-beating profits, the car maker's share price rose by 11%.

Nokia – Mobile phone giant Nokia announced better-than-expected earnings, causing its share price to rise by over 8%.



Ireland

Overview

After three weeks of substantial decline the Irish market recorded a strong 2.9% return last week following improved sentiment on the market.

Ryanair – The low-cost airline announced better-than-expected first-quarter profits which caused its share price to soar by 14%.

McInerney – Despite the negative sentiment towards property related stocks, the house building group's share price rose by over 7% due to takeover speculation.

C&C – C&C was the worst performer last week after it had to announce its second profit warning in three weeks regarding its cider sales and also reduced staff numbers. Its share price tumbled by almost 20%.



Asia Pacific

Overview

Asian markets continued to be affected by negative investor sentiment last week with most markets declining over the week. Volatility worldwide, caused by the credit market, was behind this negative sentiment.

Australia – The Australian market performed badly last week as the prices for commodities, such as copper, nickel and zinc all retreated.

Bonds

Government bonds showed little change over the week despite the continued concern in worldwide equity markets. Bonds in the US were helped slightly by the softer employment figures for July. The Merrill Lynch >5 year government bond index ended the week up 0.2%.

Global Outlook

- Global growth remains strong, although it has moderated slightly from last year's robust levels. The major central banks remain focused on the cyclical inflation pressures stemming from this strong growth.
- US interest rates were kept at 5.25% at the Fed's last meeting. Rates are firmly on hold for the moment as the Fed waits to see inflation moderate further. Recent comments suggest that the Fed is monitoring credit markets but is not too concerned about recent developments.
- The ECB held rates, as expected, at 4% at its meeting last week. While that level is closer to neutral, ECB comments continue to be hawkish. Recent concerns in the credit markets, beginning with worries over US sub-prime lending, have given support to oversold bond markets in the US and Europe.
- It's still the case that equity markets remain supported by fundamental factors such as earnings and valuations. As stated continuously for some time now, it is likely that tighter liquidity conditions and nervous credit markets will produce corrections and further periods of volatility.
- Currently, the funds are neutral bonds and closer to neutral in equities. Sectorwise, the funds are overweight industrials and technology and underweight financials. Other positions continue to be pretty balanced. Geographically, the funds are overweight Europe and the Pacific Basin, underweight Ireland, Japan, US and more neutral in other regions.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star.
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