

Global Overview

Volatile equity markets

There was continued turbulence on equity markets last week as repercussions from problems in the US sub-prime mortgage market continued to dominate sentiment.

European markets

While US markets weathered the uncertainty and ended the week in the black, European markets fell sharply on fresh concerns about larger than expected exposure of European banks to US subprime mortgage woes.

Central Bank intervention in money markets

The BNP Paribas announcement prompted fears of a liquidity crunch and investors scrambled for cash sending overnight interest rates soaring. The ECB pumped €94 billion into the market to ease liquidity fears. This was followed by liquidity injections by the Fed, the Bank of Japan and other major central banks.

US interest rates

The US Federal Reserve met on Tuesday and left interest rates on hold at 5.25% as expected. The Fed indicated that while risks to growth have increased somewhat, inflation remains its predominant policy concern.

Market	Index	Year to Date Return 31.12.06 to 10.08.07		1 Week Return 03.08.07 to 10.08.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.5	-1.2	1.4	2.2
US	NASDAQ	5.4	1.5	1.3	2.1
Europe	FT/S&P Europe Ex. U.K.	1.0	1.0	-2.2	-2.2
Ireland	ISEQ	-11.3	-11.3	-2.9	-2.9
UK	FTSE 100	-2.9	-3.3	-3.0	-3.2
Japan	Topix	-2.8	-5.7	-2.3	-1.4
Hong Kong	Hang Seng	9.2	4.6	-3.3	-2.5
Australia	S&P/ASX 200	4.7	8.1	-1.4	-2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.2	-1.2	-0.2	-0.2

Global Equities



United States

Overview

The US market held onto gains last week as the Fed injected liquidity into the banking system on Friday.

Key Movers

Fannie Mae – The government sponsored enterprise requested permission to increase its investments in home loans and mortgage bonds. Fannie Mae rose 17.4% on the week while Freddie Mac was up 11.2%. Although permission was denied by authorities, the headline news helped improve sentiment and stabilise markets.

Countrywide Financial – The largest US mortgage lender fell 2.8% on Friday when it announced that adverse market conditions will hurt future earnings. The stock had performed strongly earlier in the week and was up 11.4% overall.



Europe

Overview

Turmoil in credit markets rocked European equity markets last week and markets recorded sharp declines.

Financials – BNP Paribas fell 1.8% after it froze three investment funds while Deutsche Bank fell 3.6% when it announced that one of its funds that invests in asset backed securities has lost one third of its value since the end of July partly due to customer redemptions.

ABN Amro – Rumours that Barclays might withdraw from the takeover battle for ABN Amro resulted in a 3.4% decline in the share price of the Dutch Bank.

Danone – The food group bucked the trend and rose over 4% due to speculation of a possible bid from Pepsico.



Ireland

Overview

Irish equities fell in line with European markets.

Financials – The main banks all suffered due to weakness in the sector across Europe. AIB fell 3.4%, Bank of Ireland was down 3.8% while Anglo Irish Bank fell 3.1%.

Elan – Elan was the exception rising 6.7% on the back of approval from the US FDA that Tysabri should be approved for marketing as therapy for Crohn's disease.



Asia Pacific

Overview

Asian markets were affected by negative investor sentiment last week with most markets declining over the week. The Hong Kong market slid 3.3%.

China – The Shanghai market brushed off investor worries and rose another 4.4% last week. The index is up over 77% year to date.

Bonds

Eurozone government bonds ended the week marginally lower following their recent gains despite continued concern in worldwide equity markets. Shorter dated bonds have outperformed as fears over banks' exposures to subprime and other high risk debt caused a dislocation in money markets which led to large liquidity injections from major central banks. While ensuring that money markets traded more calmly this also led to a flight to quality bid to short dated government bonds. The Merrill Lynch >5 year government bond index ended the week down 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 meeting last week. Rates are on hold for the moment as the Fed waits to see inflation moderate further. Recent comments suggest that the Fed is closely monitoring financial markets following the recent credit crunch and market participants have as a result priced for almost 50 basis points of cuts before year end.
- The ECB held rates, as expected, at 4% at its latest meeting. 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 further periods of volatility like the one just encountered.
- Currently, the funds are neutral bonds and closer to neutral in equities. Sectorwise, the funds have a slight overweight in 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.

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