Weekly
investment news

12th November 2007

EAGLE STAR

Global Overview

Difficult week for equities

Global equity markets suffered sharp falls last week as worries regarding global credit markets continued to dominate sentiment. There is growing uncertainty surrounding the extent to which certain banks are exposed and this is undermining investor confidence.

Interest rates

The European Central Bank and the Bank of England both kept interest rates on hold as expected last week. Jean Claude Trichet, ECB president, said that the bank is still concerned about inflation.

Currency markets

Expectations of further US interest rate cuts and weak consumer confidence data resulted in continued US dollar weakness. The dollar was also affected by comments from Chinese politicians urging the central bank to diversify its assets away from US dollars. The €/$ rate finished the week at just under $1.47.

Oil price

Oil prices rose above $98 per barrel during the week prompting speculation that the price will move towards $100 per barrel before year end. Production disruptions in the North Sea, due to bad weather, supported prices.

Market	Index	Year to Date Return 31.12.06 to 09.11.07		1 Week Return 02.11.07 to 09.11.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.5	-5.9	-3.7	-4.7
US	NASDAQ	8.8	-2.2	-6.5	-7.5
Europe	FT/S&P Europe Ex. U.K.	3.2	3.2	-2.7	-2.7
Ireland	ISEQ	-24.2	-24.2	-6.4	-6.4
UK	FTSE 100	1.4	-2.7	-3.5	-4.4
Japan	Topix	-11.1	-14.2	-6.6	-4.4
Hong Kong	Hang Seng	44.2	29.6	-5.5	-6.8
Australia	S&P/ASX 200	15.5	20.3	-2.3	-4.2
Bonds	Merrill Lynch Euro over 5 year Govt.	1.5	1.5	0.6	0.6

Global Equities

United States

Overview

US markets suffered steep losses last week with the technology sector doing particularly badly due to concerns regarding a reduction in capital spending in the financial sector. Technology stocks had remained largely unaffected by the current credit market crisis up to this point.

Financial stocks – Financial stocks had a volatile week. Morgan Stanley declared a $3.7bn loss on sub prime mortgage-linked securities and fell over 7%.

Technology shares – Technology stocks declined across the board with Oracle down over 12% and Apple declining 12% over the week.

Europe

Overview

European stock markets also declined last week, with financial stocks leading the way, due to further credit market turmoil in the marketplace.

Financial stocks – It was another bad week for the banking sector. UBS lost 10% while Credit Suisse lost over 8%.

InBev – The brewer fell 12% due to broker downgrades following disappointing third quarter earnings and poor sales growth.

Ireland

Overview

The Irish market fell by over 6% last week as financials continued to bare the brunt of global credit market concerns.

Ryanair – Ryanair was affected by the sharp rise in the oil price and fell over 10% despite delivering a better than expected full year profit outlook.

Waterford Wedgewood – Waterford fell by over 14% when it announced a €29m operating loss for the first half of 2007. The company also announced significant job losses.

Asia Pacific

Overview

Asian markets followed their global counterparts into negative territory with Hong Kong falling 6% and the Shanghai market falling 8%.

Shanghai – In China, the Shanghai market was undermined by PetroChina which fell sharply following a strong stock market debut.

Bonds

Bonds prices rose on the week as volatility on equity markets saw investors making the most of their safe haven status. The Merrill Lynch >5 year government bond index rose 0.6% on the week.

Global Outlook

- Global growth has been strong year to date, although it has moderated from 2006's robust levels. The major central banks had been focused on cyclical inflation pressures, but have clearly become concerned about dislocation in parts of the credit markets and how that might impact on real economic activity.
- At its last meeting, the Fed cut rates by 0.25%, as expected. Despite Fed worries about higher inflation, spurred by energy and commodity prices, investors still remain confident of further rate cuts over the coming months.
- Following the ECB meeting last week, investors still expect eurozone rates to remain on hold for some time, judging that US rate cuts and a stronger euro exchange rate will be sufficient to offset the still hawkish stance of many ECB members. Bonds continue to be a hostage to sentiment in equity and corporate credit markets.
- Equity markets have given up some of their recent gains with financial stocks in particular being hit heavily over concerns regarding exposure to US housing. Investors are also worried about the reliability of earnings' forecasts over the next 12 months. While US rate cuts have helped sentiment somewhat, nervousness and volatility look set to persist for the time being, before confidence returns.
- At the moment, the funds are slightly overweight in bonds and close to neutral in equities. Sector positions are overweight industrials and underweight financials and some of the consumer-related areas. In terms of geographical exposures, the funds are underweight Ireland and Japan, overweight the Pacific Basin and closer to neutral in other areas.