Weekly
# investment news

10th December 2007

EAGLE STAR

## Global Overview

**Equity markets advance**
Global equity markets recorded another positive week following the Bank of England and European Central Bank meetings on interest rates. Investors await the Fed meeting this week where an interest rate cut is anticipated.

**Interest rates**
In the UK, the Bank of England cut interest rates by 0.25%, with slower growth and tighter credit conditions behind the council's decision. Rates are now at 5.5% and investors expect further reductions in the coming months. Inflation worries were to the fore when the ECB met and held rates at 4% once again. ECB president, Jean-Claude Trichet, was more hawkish than expected as he warned about the "strong upward pressure" that remains on inflation.

**Economic data**
There was good news for the US economy last week when non-farm payroll data showed that there was an increase of 94,000 jobs in November, which was slightly higher-than-expected. This resulted in investors paring back their interest rate-cut expectations from 0.5% to 0.25%.

**Oil price**
Opec's decision to reject calls for an increase in production pushed oil prices slightly higher early last week, prior to fears over the outlook for global growth causing downward pressure on the price. The oil price finished the week, unchanged, at $88 per-barrel.

| Market | Index | Year to Date Return 31.12.06 to 07.12.07 | | 1 Week Return 30.11.07 to 07.12.07 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S&P 500 | 6.1 | -4.5 | 1.6 | 1.9 |
| US | NASDAQ | 12.0 | 0.8 | 1.7 | 2.0 |
| Europe | FT/S&P Europe Ex. U.K. | 5.1 | 5.1 | 0.8 | 0.8 |
| Ireland | ISEQ | -23.0 | -23.0 | 0.5 | 0.5 |
| UK | FTSE 100 | 5.4 | -1.8 | 1.9 | 0.7 |
| Japan | Topix | -7.1 | -10.9 | 2.0 | 1.5 |
| Hong Kong | Hang Seng | 44.5 | 29.8 | 0.7 | 0.9 |
| Australia | S&P/ASX 200 | 17.4 | 17.5 | 1.9 | 1.5 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 0.7 | 0.7 | -0.3 | -0.3 |

## Global Equities

### United States

**Overview**

Strong employment data for November along with the expectation that the Fed will cut rates this week helped US markets perform strongly.

**Key Movers**

Research in Motion – Following a stockbrokers downgrading of the company that makes the hand-held Blackberry device, Research in Motion's share price fell by nearly 9% over the week.

AIG – After announcing it had an exposure to subprime losses, AIG managed to calm investors fears and this resulted in the share price rising by a surprising 5.7%.

JC Penny – Despite many retailers experiencing weaker-than-expected sales in November, JC Penny reported strong sales which helped its share price to rise by over 6%.

## Europe

### Overview

Despite inflation concerns and a hawkish tone from the ECB's president, most european markets finished the week higher as investors anticipate an interest-rate cut in the US this week.

StatoilHydro – After revising down its 2007 oil and gas production target, the Norwegian energy company's share price fell by over 8%.

Roche – The worlds largest maker of cancer medicines suffered a set-back last week after it failed to win US approval for its breast cancer drug, Avastin. Following this, stockbrokers cut their forecasts for the company, resulting in the share price falling 5%.

## Ireland

### Overview

The Irish market gained marginally last week after financial stocks rose and the market responded well to the budget for 2008.

Financial stocks – Following lower-than-expected subprime writedowns from Royal Bank of Scotland, financial stocks across Europe had a broad based rally. This, along with a reassuring trading update from AIB, helped both AIB and Bank of Ireland follow the sector trend and rise over the week.

Glanbia – The dairy giant's share price suffered last week after a company which it used to own admitted it was part of a price-fixing cheese cartel which was being investigated by the Office of Fair Trading in the UK. Glanbia's share price retreated by 5%.

## Asia Pacific

### Overview

Expectations of lower interest rates in the US supported Asian markets last week and most returned steady gains.

Japan – The export-led Japanese market performed well last week as it benefited from expectations that President Bush's plans to stem defaults on home loans would help the US avoid a recession.

# Bonds

Eurozone bond prices fell following the unexpectedly hawkish tone of Jean-Claude Trichet, who warned of inflation concerns in the eurozone and the ECB would act to keep inflation under control if required. The Merrill Lynch >5 year government bond index was down 0.3% on the week.

# Global Outlook

- Global growth has been strong during 2007, although it has moderated from last year'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.
- The Fed has already lowered rates by 0.75% in recent months. Its worries about higher inflation - spurred by energy and commodity prices - seem to have moderated slightly, encouraging investors to expect at least a 0.25% rate cut this week and further reductions in 2008.
- Following last weeks ECB meeting, investors continue to 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.
- In the recent past, financial stocks in particular have been hit heavily over concerns regarding exposure to US housing. Investors are also worried about the reliability of earnings' forecasts over the next 12 months, for the markets as a whole. 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 close to neutral in bonds and equities. Sector positions are pretty balanced at the moment. In terms of geographical exposures, the funds are underweight Ireland and Japan, overweight the Pacific Basin and closer to neutral in other areas.



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