

Weekly Investment News

7th January 2008



EAGLE STAR

A member of the  Zurich Group

In this, our first investment news bulletin of the new year, we are taking the opportunity to look back at 2007 as a whole. We would also like to wish all of our readers a very happy and prosperous new year.

Global Overview

2007 will be remembered as a year when global equity markets experienced, at times, extreme volatility and also for the huge variations in returns, ranging from -26% in Ireland to +39% in Hong Kong. The fundamentals of robust global economic growth, reasonable valuations and ongoing positive earnings underpinned equity markets for most of the period. However, against a background of rising interest rates in most regions, there were notable bouts of turbulence in late February and, more seriously, in the summer and autumn of 2007. These had their origins in the default levels in the US sub-prime mortgage market which, with astonishing rapidity, gave rise to a full-blown credit crisis with global ramifications.

One upshot of this was a change in US interest rate policy, with the Federal Reserve cutting rates three times for a cumulative cut of 1%, leaving interest rates at 4.25% at year end. The ECB brought eurozone interest rates up to 4% by June and they have remained unchanged since. Weakness in the US dollar, sterling and the yen against the euro resulted in reduced returns to eurozone investors from investments in those currencies. In Asia, exceptional growth in China continued to attract much attention, with stellar returns of 162% on the Shenzhen market.

Oil prices rose substantially in the latter months of the period, finishing at \$96 per barrel, though with relatively little adverse effect on inflation which remained more or less under control. On currency markets, the dollar continued its decline against the euro as US interest rates peaked and began to fall. At period end, the €/£ rate was 1.46.

At the half way point in the year, eurozone bonds had experienced a difficult time due to a combination of stronger eurozone economic news, robust returns from equities and uncertainty regarding the pace of interest rate increases. However, the beginning of a protracted spell of volatility for the equity markets, as so often, heralded a brighter period for bonds with renewed strength due to safe-haven buying. The turn in the interest rate cycle in the US was also a boost for bonds on both sides of the Atlantic. In total, the Merrill Lynch Over 5 Year Index was up 0.5% on the period.

World Stock Market Performance 31.12.06 to 31.12.07

Market	Index	Local Currency (% Return)	Euro (% Return)
Ireland	ISEQ	-26.3	-26.3
Europe	FT/S&P Europe Ex. U.K.	3.3	3.3
UK	FTSE 100	3.8	-4.9
US	S&P 500	3.5	-6.4
Japan	Topix	-12.2	-15.4
Hong Kong	Hang Seng	39.3	25.7
Australia	S&P/ASX 200	11.8	12.5
Bonds	Merrill Lynch Euro over 5 year	0.5	0.5

Global Outlook

- The central case for 2008 is for further moderation in global economic growth, although a 'soft landing' in the US remains the most likely outcome. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- Slowing growth and housing market pressures argue for further interest rate cuts in the US. Current eurozone rates are likely to be at their peak, although they may not be cut until towards the end of the year.
- High food and energy prices have caused headline inflation numbers to rise. This may limit the scope of rate cuts, especially in the major economies.
- The prospect of lower short rates and reasonable valuations supports global equities, although there are concerns about the health of the banking sector and the overall earnings' outlook. Expect further volatility over the next twelve months.
- The US dollar remains the primary focus of currency markets. After last year's weakness, the US dollar now has valuation support versus European currencies. The slow pace of Chinese currency appreciation is likely to persist.

This outlook of potential investment market developments in 2008 does not constitute an offer and should not be taken as a recommendation from Eagle Star. 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.eaglestarlife.ie

Eagle Star Life Assurance Company of Ireland Limited is regulated by the Financial Regulator. Intended for distribution within the Republic of Ireland.