Weekly Investment News

4th February 2008

EAGLE STAR

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Global Overview

Markets advance

European and American markets advanced last week following economic data released in the US and a further interest rate cut by the Fed.

US interest rate

On Wednesday, the US Federal Reserve cut interest rates by a further 0.5%, to 3%, an accumulative fall of 1.25% in just over one week. The Fed has stood by its word to cut interest rates aggressively in order to help the US avoid a recession.

US economic data

Figures released last week showed that payrolls in the US fell for the first time since August 2003. Payrolls dropped by 17,000 while analysts had expected a rise of over 80,000. There was better news, however, when the Institute for Supply Management's index for manufacturing activity rose above the threshold level that indicates expansion in the economy.

Eurozone inflation

While consumer confidence and German retail sales both dropped last week, indicating the ECB may soften its stance on interest rates, headline inflation rose 0.1% to 3.2%. This highlights the awkward position the ECB is currently in, as it strives to control inflation.

	Index	Year to Date Return 31.12.07 to 01.02.08		1 Week Return 25.01.08 to 01.02.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-5.0	-6.4	4.9	3.9
US	NASDAQ	-9.0	-10.4	3.8	2.8
Europe	FT/S&P Europe Ex. U.K.	-10.5	-10.5	2.1	2.1
Ireland	ISEQ	-1.4	-1.4	1.2	1.2
UK	FTSE 100	-6.6	-8.8	2.7	1.3
Japan	Topix	-9.4	-6.1	-0.6	-0.9
Hong Kong	Hang Seng	-13.3	-14.6	-4.0	-4.8
Australia	S&P/ASX 200	-7.8	-6.7	-0.3	1.3
Bonds	Merrill Lynch Euro over 5 year Govt.	3.1	3.1	0.7	0.7

Global Equities

United States

Overview

US equity markets rallied last week, following the second interest rate cut in just over a week. Increasing manufacturing activity also contributed to the strong returns.

Microsoft – The tech giant announced details of an offer to buy rival internet company, Yahoo. Microsoft is believed to have offered $31 per share, resulting in Yahoo's share price surging almost 50% on Friday alone.

Bond insurers – Both Ambac Financial and MBIA gained strongly amid reports that plans are being drawn up to save the monolines from receiving credit downgrades. The fear of credit downgrades caused both companies to lose value over the past few weeks.

Washington Mutual – Washington Mutual's share price rose by over 30%, following speculation that JPMorgan is considering a take-over. JPMorgan also gained almost 10% over the week.

Europe

Overview

European markets rose on the back of renewed merger and acquisition activity.

Société Générale – The French bank, which lost value following the rogue trader scandal, gained on the week as it is believed that rivals BNP Paribas and Credit Agricole are lining up bids. SocGen rose by just over 18%.

Akzo Nobel – The Dutch chemical company gained over 11% after a surprise trading statement that showed a better-than-expected fourth quarter.

Ireland

Overview

The Irish market provided steady returns despite concerns over the main banking stocks.

Banking stocks – Stockbroking giant, UBS, said that Irish banks faced a ''significant risk" to earnings over the coming years as it feared the Irish commercial property market was over-valued by up to 30%. This resulted in UBS downgrading AIB, Bank of Ireland and Anglo Irish Bank's recommendations.

Anglo Irish Bank – Anglo Irish Bank issued an AGM statement on Friday saying the first four months of business have been strong and that it was seeing no deterioration in credit quality. Anglo also reaffirmed its 2008 guidance of 15% growth.

Asia Pacific

Overview

Asian markets finished the week lower as fears of a recession in the US and further banking write-downs remain to the forefront.

Bonds

Eurozone bonds rose last week as investors expect the ECB to soften its stance on interest rates, however, rising headline inflation may cause it to hold off cutting rates. The Merrill Lynch >5 year government bond index was up 0.7% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth. While a ''soft landing" in the US remains the consensus outcome of most economists, markets continue to focus on recession risks. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.

- Slowing growth, housing market pressures and deteriorating financial conditions argue for further interest rate cuts in the US. The Fed has lowered rates dramatically, by 1.25%, over the past two weeks and investors foresee further cuts during the year. Despite continued hawkish comments from the ECB, 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 continue to be a worry to policy-makers and provide a somewhat tricky environment for bond investors, although bonds will continue to get safe-haven support during equity market falls.

- Lower interest rates offer valuation support to global equities, but this factor has been secondary to more pressing concerns about the health of the banking sector and the overall earnings' outlook. Further volatility is highly likely.

- 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.

- At the moment, the funds are neutral in bonds and slightly underweight in equities versus the manager average. Sector positions are reasonably balanced although financials remain underweight. Geographically the funds have an underweight position in Ireland and Japan, overweight in the US and more of a neutral stance in the Pacific Basin, UK and Europe.

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