Weekly Investment News

21st April 2008

EAGLE STAR

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Global Overview

Markets gain

Equity markets gained strongly over the week, after better-than-expected earnings results from some bellwether companies helped investor sentiment.

US housing data

Data released in the US showed that new housing starts had dropped almost 12% since February, hitting a 17-year low. This increased concerns that economic growth would be eroded by the construction slowdown.

German investor confidence

German investor confidence unexpectedly fell in April as eurozone inflation rose to its highest level in over 16 years as food and energy prices continue to rise.

Oil price

An unexpected large decline in crude oil stocks caused prices to rise to another all-time high of $116 per barrel, nearly 6% higher over the week.

	Index	Year to Date Return 31.12.07 to 18.04.08		1 Week Return 11.04.08 to 18.04.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-5.3	-12.4	4.3	4.6
US	NASDAQ	-9.4	-16.2	4.9	5.2
Europe	FT/S&P Europe Ex. U.K.	-11.7	-11.7	2.6	2.6
Ireland	ISEQ	-9.7	-9.7	2.6	2.6
UK	FTSE 100	-6.2	-12.7	2.7	4.3
Japan	Topix	-11.6	-12.4	2.0	-0.9
Hong Kong	Hang Seng	-13.0	-19.4	-1.9	-1.7
Australia	S&P/ASX 200	-14.4	-16.0	-0.2	0.1
Bonds	Merrill Lynch Euro over 5 year Govt.	1.1	1.1	-1.9	-1.9

Global Equities

United States

Overview

US markets rose sharply after better-than-expected earnings in many sectors boosted investor confidence that the economy could weather the effects of the consumer slowdown and credit crisis.

Technology sector – Technology stocks were boosted by estimate-beating results and upbeat full-year comments from Intel, followed later in the week by IBM and Google. Google was the main gainer over the week, rising almost 18%.

Industrial sector – Bellwether stocks, Honeywell International and Caterpillar, announced better-than-expected results for Q1, as they both avoided the weakening domestic market due to strong international sales. Honeywell rose over 7%, while Caterpillar rose 14%.

Citigroup – Despite its second quarterly loss, following roughly $12bn in writedowns, the biggest US bank's results were not as bad as most feared. Over the week its share price rallied by nearly 8%.

Europe

Overview

European markets gained following the better-than-expected earnings and upbeat comments from some of the largest US companies.

Banking stocks – European banking stocks gained after the largest US bank, Citigroup, posted earnings that beat expectations and news that Royal Bank of Scotland was planning a rights issue to boost capital reserves.

L'Oréal – The cosmetics giant's earnings missed forecasts for Q1 as the "exceptionally difficult" US environment took its toll on sales. Its value fell 6% over the week.

Nokia – Despite earnings that met expectations, the mobile phone maker gave a downbeat outlook for the rest of the year, saying it expects the market to shrink due to the weakening dollar and as growth worldwide slows down. Its share price fell 11% over the week.

Ireland

Overview

The ISEQ followed markets worldwide and finished the week 2.6% higher.

Elan – At the AAN conference, Elan disclosed strong patient enrolment numbers for Tysabri and no issues regarding the safety profile. This resulted in the stock gaining over 12%.

Asia Pacific

Overview

Most Asian markets finished the week marginally lower, as they closed prior to the strong rally on Friday, led by banking stocks following good earnings results.

Shanghai – The Shanghai market fell by over 11%, due to concerns that efforts to tackle rising inflation through interest rate hikes and price controls would impact on earnings.

Bonds

Food and energy prices contributed to eurozone inflation rising to its highest level in 16 years. The rate of 3.6%, was 0.3% higher than February, giving the ECB little room to soften its interest rate stance. The Merrill Lynch >5 year government bond index fell 1.9% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth. Some of the US data has already been 'recession-like' and investors will continue to focus on growth risks, regardless of whether or when a recession is actually declared. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- US interest rates are forecast to be reduced by a further 0.25%, to 2%, at the end of this month, but this is now expected to be the low point in rates for this cycle. Meanwhile, the ECB's rhetoric remains quite hawkish amid higher-than-forecast inflation data; at best, rates are likely to stay on hold for some time to come.
- High food and energy prices continue to be a worry for policy-makers and provide a somewhat tricky environment for bond investors. Bonds do not provide a lot of value at the moment, but will continue to get safe-haven support during any further equity market volatility.
- Worries about the banking system have been eased by measures taken by central banks and policymakers and this has allowed equity markets to rebound. Further volatility is likely while investors determine the earnings outlook for the overall market.
- The US dollar remains the primary focus of currency markets. While the US dollar now has valuation support versus European currencies, it might continue to struggle until clear signs of a cut in eurozone interest rates emerge.
- At the moment, the funds are slightly overweight in bonds and close to neutral in equities versus the manager average. Sector positions are reasonably balanced, although oil & gas is an overweight. Geographically, the funds have an underweight position in Ireland and Japan, are overweight in the US and the Pacific Basin and are more neutral in Europe and the UK.

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