Weekly Investment News

28th April 2008

EAGLE STAR

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Global Overview

Markets gain marginally

Most US and European equity indices finished the week marginally higher after mixed earnings results and economic data. Some of the Asian markets showed stronger gains.

US economic data

There was further weak housing data in the US, causing concern to the construction sector. New-home sales fell by over 8% last month, leaving them at their lowest level since October 1991. On a more positive note, jobless data showed that claims fell more than expected, while durable goods orders increased last month.

Business confidence

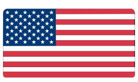
A few reports showed that business confidence in the eurozone, most notably in Germany, was weaker than expected, raising concerns about the health of the eurozone economy. This, along with expectations that the Fed is close to an interest rate cycle-low, caused the US dollar to rise against the euro and the €/$ rate ended the week just above 1.56.

Oil price

Oil continued this year's strong run, as concerns of a disruption to supply and increased demand from China caused it to reach another all-time high of €119 per barrel.

	Index	Year to Date Return 31.12.07 to 23.04.08		1 Week Return 18.04.08 to 23.04.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-4.8	-11.1	0.5	1.5
US	NASDAQ	-8.7	-14.7	0.8	1.8
Europe	FT/S&P Europe Ex. U.K.	-11.5	-11.5	0.2	0.2
Ireland	ISEQ	-10.9	-10.9	-1.3	-1.3
UK	FTSE 100	-5.7	-11.9	0.6	0.9
Japan	Topix	-9.2	-9.1	2.8	3.7
Hong Kong	Hang Seng	-8.3	-14.2	5.5	6.5
Australia	S&P/ASX 200	-11.9	-12.5	2.9	4.2
Bonds	Merrill Lynch Euro over 5 year Govt.	0.9	0.9	-0.1	-0.1

Global Equities



United States

Overview

Despite weak economic data causing concerns for the economy, US markets rose slightly after some quarterly earnings were better than forecast.

Ambac Financial Group – Bond insurer, Ambac, posted steep losses for the first quarter as turmoil in the bond market depleted the value of many of its deals. Its value plummeted by 35% over the week.

Starbucks – There was more bad news from Starbucks as the "weakest economic environment" in its history caused it to miss earnings forecasts. Its shares finished the week 13% lower.

Microsoft – As sales of its product, Windows, fell, the technology company announced a fall in quarterly profits. This caused concern that consumer demand for computers may not escape the broader slowdown. Despite this, its value only fell 1% on the week.

Europe

Overview

European markets traded within a range as investors took stock of mixed earnings results.

Credit Suisse – The Swiss bank reported a quarterly loss, which was in-line with expectations, while also announcing a further $5 billion in credit-related writedowns. Its share rose over 2% on the week, as the announcement contained no new surprises.

ABB – Increased demand for power infrastructure helped the Swiss engineering group to nearly double its first quarter profit. Its share price rose over 8% on the week.

Ireland

Overview

Despite good earnings from Elan, the ISEQ fell by just over 1% on the week.

Elan – The pharmaceutical company announced that strong sales of its MS drug, Tysabri, helped it post a 22% rise in product revenue during the first quarter, with its operating loss narrowing also. Its share price finished the week over 4% higher.

Asia Pacific

Overview

Asian markets started the week strongly as they benefited from the financial-led rally from the previous Friday. They gained further after the Chinese government's move to cut equity tax.

Shanghai – After falling almost 50% since October 2007, the Chinese government moved to help the equity market by cutting the tax on trading to 0.1%, from 0.3%. The Shanghai index surged after this, finishing the week 15% higher.

Bonds

Eurozone bonds remained relatively unchanged over the week as investors wait for the ECB to soften its stance on interest rates. In the US, expectations are that the Fed may cut rates this week. However, as the economy recovers a rate hike may be needed to curb inflation. The Merrill Lynch >5 year government bond index fell 0.1% on the week.

Global Outlook

- Most economists look for global growth to moderate during the year after a prolonged period of strength. 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.
- Expectations for US interest rates have changed significantly in the past few weeks. Investors expect this week's forecast reduction of around 0.25% to mark the low point of the cycle, with rates rising back above 2% before year end. 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 could 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 over 10% from the mid-March low. 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 close to neutral in both bonds and equities versus the manager average. Sector positions are reasonably balanced, although oil & gas and telecoms are overweight. Geographically, the funds have an underweight position in Ireland, Japan and Europe, are overweight in the US and the Pacific Basin and are more neutral in the UK.

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