



Global Overview

Markets retreat

Most equity markets finished the week lower, after oil hit a number of new record highs throughout the week and further sub-prime writedowns hit investor sentiment.

US economic data

There was further positive economic data from the US last week. US productivity unexpectedly gained last month, while jobs data showed that initial jobless claims fell by an expectation-beating 18,000 last week. Both of these helped investor sentiment that the US economy was not deteriorating rapidly.

Interest rate decisions

As expected, the Bank of England and the European Central Bank held benchmark interest rates at 5% and 4% respectively. While economic data in the eurozone points to a slowdown, investors are expecting ECB rates to remain on hold for some time yet, as the inflation rate remains above the desired 2% rate, at 3.3%.

Oil price

Oil prices soared over the week as hedge funds continue to take advantage of the sharp increase in price, along with supply concerns in Nigeria. The oil price rose by over 8% last week, to finish the week at just under \$126 per barrel, hitting numerous record highs along the way.

Index		Year to Date Return 31.12.07 to 09.05.08		1 Week Return 02.05.08 to 09.05.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-5.5	-10.9	-1.8	-2.1
US	NASDAQ	-7.8	-13.1	-1.3	-1.6
Europe	FT/S&P Europe Ex. U.K.	-10.8	-10.8	-1.2	-1.2
Ireland	ISEQ	-7.3	-7.3	-0.7	-0.7
UK	FTSE 100	-3.9	-10.9	-0.2	-1.6
Japan	Topix	-9.1	-7.0	-2.6	-0.8
Hong Kong	Hang Seng	-9.9	-15.0	-4.5	-4.8
Australia	S&P/ASX 200	-9.0	-7.8	1.3	1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	2.8	2.8	1.6	1.6

Global Equities



United States

Overview

US stocks, led by financials, retreated, after AIG missed earnings forecasts and announced credit-related writedowns.

AIG – Late last week, one of America's largest insurers, AIG, announced that it had missed earnings forecasts and was planning to raise \$12.5bn through a rights issue. The insurer also announced \$15bn in credit-related writedowns. Its share price dropped by 17% on the week.

Cisco Systems – The internet technology company avoided any major effects from the slowdown of the US economy and reported profits which beat expectations, as sales of network equipment boosted profits. Despite this, its share price fell by over 4% as analysts predicted that slower orders going forward would hit the stock.



Europe

Overview

Equity markets in Europe fell after oil surged and financial stocks retreated following weak results from US insurer, AIG, and German bank, Commerzbank.

Commerzbank – Earnings from Germany's second-largest bank showed a decline in Q1 profit by 54% when compared with 2007 Q1. This followed writedowns linked to sub-prime and credit-related losses. Its share price fell by 4% on the week.

InBev – The Belgian brewer missed Q1 forecasts, as rising costs and falling sales in Brazil hit profits. Its value fell by just over 4% on the week.



Ireland

Overview

The ISEQ finished the week slightly lower after mixed earnings results.

Anglo Irish Bank - Anglo's share price rose after announcing estimate-beating half-year results. The bank also gave a strong account of its funding, liquidity and quality of its loans. It gained by 5% over the week.

C&C – The drinks company was one of the top performers on the ISEQ last week after announcing that annual profit had risen by 13% on the sale of its soft drinks division.

CRH – CRH issued an AGM statement suggesting that profits in the first four months of the year are down on the same period last year and that its full-year profit target is now 'more challenging'.



Asia Pacific

Overview

Most Asian markets finished the week in negative territory as oil prices soared and concerns lingered over possible monetary tightening in China.

Japan – Japanese refinery company shares moved sharply higher after Nippon Oil agreed to a joint venture with PetroChina to operate its Osaka refinery.

Bonds

Eurozone bonds enjoyed a strong week after the tone of the ECB president, Jean-Claude Trichet, was no more hawkish than previously. While investors are expecting rates to stay on hold for some time yet, he did refer to deteriorating economic conditions in the eurozone. The Merrill Lynch >5 year government bond index rose 1.6% 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.
- Current US interest rates of 2% are now expected to be the low point in rates for this cycle, with rates seen rising by year end, a pattern that would be very atypical judging by past easing and tightening cycles. It would imply a sharp "V-shaped" recovery in the real economy, something that seems unlikely at present.
- Meanwhile, the ECB's rhetoric remains quite hawkish amid higher-than-forecast inflation data. Its past record suggests that such concerns can be moderated by a sufficiently weak real economy. On balance, rates are likely to stay on hold for some time yet. A sharp rebound in the US economy could even tempt the ECB to raise rates again, although that is not the central case.
- High food and energy prices continue to be a worry for policy-makers and provide a tricky environment for bond investors. Government 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 and risk assets to rebound. Further volatility in equity markets is likely as investors assess the impact of the credit crunch and cyclical slowing of the global economy.
- The US dollar remains the primary focus of currency markets but has now regained valuation support versus European currencies. Weaker European data in the past few weeks, plus a view that US rates have troughed, may give the dollar some further support.
- At the moment, the funds are slightly long both bonds and equities versus the manager average. Within equity sectors, oil & gas plus telecoms are overweight and financials are underweight. Geographically, the funds have an underweight position in Ireland and Europe, are overweight in the US and the Pacific Basin and are more neutral in Japan and the UK.

This outlook 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.

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