Weekly Investment News

3rd June 2008

EAGLE STAR

A member of the Zurich Group

Global Overview

Mixed week

Equity markets had a mixed week, as gains from positive US economic data and retreating oil prices, were partly offset by inflation concerns..

Eurozone inflation

Eurozone inflation for May rebounded to its historic peak, as food and energy prices remain near all-time-highs. This has caused investors to worry about rate hikes before year-end. Inflation was recorded at 3.6%, up from April's 3.3%.

US economic data

US GDP data was revised upwards to show that the economy expanded at a 0.9% annual rate in the first-quarter. Lower demand for foreign goods and a pickup in non-residential building contributed to this. This boosted investors' confidence that the US economy would avoid a recession. Of concern was data which followed this, showing that consumer confidence fell to a 16-year low in May as falling home prices and rising energy costs worry consumers.

Oil price

The price of oil retreated last week, as demand concerns eased and the dollar rose against most major currencies, following stronger economic data. The price per barrel finished the week just above $127, down from last weeks $132.

Index		Year to Date Return 31.12.07 to 30.05.08		1 Week Return 23.05.08 to 30.05.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-4.6	-10.5	1.8	3.4
US	NASDAQ	-4.9	-10.8	3.2	4.9
Europe	FT/S&P Europe Ex. U.K.	-11.0	-11.0	1.0	1.0
Ireland	ISEQ	-12.0	-12.0	0.7	0.7
UK	FTSE 100	-6.3	-12.2	-0.6	0.9
Japan	Topix	-4.6	-5.1	2.3	1.5
Hong Kong	Hang Seng	-11.8	-17.3	-0.7	0.8
Australia	S&P/ASX 200	-10.8	-8.8	-2.0	-1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.1	-0.1	-1.1	-1.1

Global Equities

United States

Overview

US equity markets gained over the week, after the GDP figure for Q1 was revised upwards and inflation and consumer spending were in-line with expectations.

Dell – The tech company announced first-quarter results that showed lower operating costs and stronger international sales of laptops. This beat investors expectations and its share price rose by over 8%.

Marvell Technology – The technology company, which make the microchips used in Apple's iPhone, reported strong quarterly earnings, which resulted in the stock being upgraded by stockbroker JPMorgan. It was one of the main gainers on the Nasdaq last week, rising 20%.

Mastercard – Mastercard's share price finished the week over 12% higher, after the company raised its targets for profit growth.

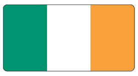
Europe

Overview

Most equity markets gained over the week, however gains were restrained by concerns over rising inflation.

SAP – The technology company was boosted by a positive stockbroker comment and the raising of the stock from "underperform" to "selected list". It finished the week 4% higher.

Man Group – The hedge fund manager reported that last year's earnings beat expectations and rose by 60%, resulting in it doubling this year's dividend. Its value gained almost 8% over the week.

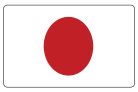


Ireland

Overview

The Irish market gained slightly over the week.

Greencore – Greencore reported weaker-than-expected 6-month earnings. Sterling's drop in value versus the euro mainly contributed to the drop in profits, as 80% of its earnings come from the UK. Its share price fell by 14% on the week.



Asia Pacific

Overview

It was a mixed week for Asian markets. Export related stocks were helped by positive economic growth and consumer spending in the US, along with a weakening yen versus the dollar. Despite this positive news, inflationary pressures are still a concern for the region, as the price of oil remains near its all-time-highs.

Bonds

It was a poor week for eurozone bonds, after data released showed that inflation in the region rose to its historic peak of 3.6%. Investors now fear that the next move in rates could be upwards. The Merrill Lynch >5 year government bond index fell 1.1% 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 eased significantly and this allowed equity markets to rebound strongly from the March lows. 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. Further signs that eurozone growth momentum is turning down may give the dollar some additional support in the months ahead.
- At the moment the funds are neutral to slightly underweight equities and slightly long bonds versus the manager average. Within equity sectors, oil and gas plus technology 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.

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