Eagle Star Investments

Weekly News

30th June 2008

Global Overview

Markets fall

Equity markets across the world suffered sharp declines last week as sky high oil prices exacerbated inflation fears. There were also renewed fears over the banking sector due to expectations of further credit related write-downs.

US consumer confidence

The US Conference Board's consumer confidence index hit its lowest level in 16 years. Data also showed that US consumers are saving a greater proportion of their earnings. The US Federal Reserve left interest rates unchanged at 2% on Wednesday as expected.

UK economic growth

In the UK, economic growth in the first quarter was revised down to 0.3% quarter on quarter. UK mortgage approvals also fell to a record low in May.

Commodity prices

Oil prices reached a record high of $142 a barrel on Friday underpinned by a weakening US dollar and comments from OPEC that oil may reach $170 a barrel over the summer.

	Index	Year to Date Return 31.12.07 to 27.06.08		1 Week Return 20.06.08 to 27.06.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-12.9	-19.4	-3.0	-3.8
US	NASDAQ	-12.7	-19.1	-3.8	-4.6
Europe	FT/S&P Europe Ex. U.K.	-21.8	-21.8	-3.1	-3.1
Ireland	ISEQ	-23.6	-23.6	-3.1	-3.1
UK	FTSE 100	-14.4	-20.3	-1.6	-1.5
Japan	Topix	-10.5	-12.9	-2.7	-2.5
Hong Kong	Hang Seng	-20.8	-26.7	-3.1	-3.9
Australia	S&P/ASX 200	-17.4	-16.1	-1.0	-1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.9	-0.9	0.2	0.2

Global Equities

United States

Overview

The S&P 500 came within a whisper of its March lows last week due to soaring oil prices, worries over banking stocks and poor earnings reports from the technology sector.

Banking stocks – The banking sector was one of the worst performers on the week as Goldman Sachs warned of further possible credit related write-downs at Citigroup and Merrill Lynch.

Technology sector – The NASDAQ was down 3.8% on the week with stocks such as Palm delivering disappointing earnings results. Oracle reported a higher than expected quarterly profit but forecast weaker software license sales going forward.

Europe

Overview

European markets declined last week as record oil prices led to concerns over inflation.

Banking stocks – Banking stocks came under pressure as Fortis announced that it would issue €1.5 billion in new shares. Barclays bank also announced a £4.5 billion rights issue on Wednesday.

Carmakers – The European auto sector lagged due to high oil prices and a record rise in the price of iron ore. Fears of a slowdown in consumer spending also impacted.

Ireland

Overview

The Irish market fell over 3% on the week, as investor confidence was dealt a severe blow by a report from the ESRI predicting that the Irish economy will enter recession during 2008.

Banking Stocks – The banking sector was hardest hit with Irish Life and Permanent declining by 17% and Bank of Ireland down over 8%.

Ryanair – Ryanair was the second worst performer of the top ten falling over 11% as a result of the oil price rise.

Asia Pacific

Overview

Asian markets finished the week lower, as inflation fears remain and concern over slower demand from the US hurt stocks.

Japan – Japanese stocks fell sharply as figures showed a decline in household spending as well as rising inflation.

Bonds

Global bond markets gained as investors sought a haven from the fallout in equity markets. However, gains in Eurozone bond prices were pared following comments from Jean-Claude Trichet, president of the ECB, where he said the bank was on a "heightened state of alertness" over inflation. The Merrill Lynch >5 year government bond index rose 0.2% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth, with soaring oil prices adding downside risks to this picture. Already much of the US data has been 'recession-like' and growth concerns will persist there. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact. Japan's lack of exposure to the credit crunch has been a positive.
- Current US interest rates of 2% are expected to be the low point for this cycle, with rates seen rising in the second half of this year. The Fed normally doesn't raise rates when the unemployment rate is rising - as it is now. But inflation concerns are also on the Fed's radar and this may alter the historic pattern.
- Despite clear evidence of economic growth momentum, the ECB's rhetoric has become more hawkish amid higher-than-forecast inflation data. It is fully expected to raise rates by 0.25% to 4.25% this Thursday, a turnaround from the cuts which investors bet on earlier in the year.
- After sharp price falls, following higher-than-expected inflation, government bonds are now more reasonably valued, and may also get safe-haven support during any further equity market volatility.
- Equity markets have eroded much of the very strong gains recorded after the Bear Stearns rescue. Further volatility is likely as investors assess the impact of the credit crunch and cyclical slowing of the global economy.
- The US dollar has now regained valuation support versus European currencies. A volatile period of range trading may be the pattern for the next few weeks, especially in the midst of further ECB interest rate tightening.
- At the moment, the funds are underweight equities and slightly long bonds versus the manager average. Within equity sectors, financials and some of the industrial and consumer areas are underweight. Geographically the funds have an underweight position in Ireland, Europe and the Pacific Basin, and are more neutral in the US, Japan and the UK.

Print Ref: CSA63

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