

Eagle Star Investments

Weekly News

1st September 2008

Global Overview

Mixed week

It was a mixed week for markets after an upward revision of US GDP for Q2 was overshadowed by weak Eurozone data and concern over hurricane Gustav as it approaches the US mainland.

US economic data

GDP growth for Q2 was revised upwards, to a much stronger than expected 3.3%. While tax rebates helped consumer spending to continue rising, the strongest sector of the US economy has been exports, which contributed 3.1% of the 3.3% rise in GDP, helped mainly by a weak dollar. Elsewhere, jobless claims dropped again last week and durable goods orders rose in July, leaving investors more optimistic on the outlook for the health of the US economy.

Eurozone concern

There was further weak data released for the Eurozone, heightening investors concern that the economy could be heading towards a recession. European retail sales declined for the third consecutive month, while German business and consumer confidence both fell more-than-expected.

Commodities

The oil price remained volatile last week due to concerns that hurricane Gustav could affect oil and gas production in the Gulf of Mexico. Oil finished the week at almost \$116 per barrel, just under 2% higher. Oil prices this week will be dependent on the path of Gustav as it approaches New Orleans.

Index		Year to Date Return 31.12.07 to 29.08.08		1 Week Return 22.08.08 to 29.08.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-12.6	-13.0	-0.7	0.4
US	NASDAQ	-10.7	-11.1	-2.0	-0.8
Europe	FT/S&P Europe Ex. U.K.	-21.1	-21.1	1.7	1.7
Ireland	ISEQ	-35.2	-35.2	3.1	3.1
UK	FTSE 100	-12.7	-20.3	2.4	1.5
Japan	Topix	-15.0	-13.0	3.2	5.4
Hong Kong	Hang Seng	-23.6	-23.9	4.3	5.5
Australia	S&P/ASX 200	-19.0	-21.1	4.1	3.9
Bonds	Merrill Lynch Euro over 5 year Govt.	2.5	2.5	0.4	0.4

Global Equities



United States

Overview

US markets finished the week in the red, despite rallying after the release of Q2 GDP data. The market is still quite fragile and fell into negative territory on Friday after disappointing personal income data and a gloomy outlook from Dell.

Dell – The tech giant announced earnings which missed analysts' expectations and gave a worrying outlook for the sector. It commented that "spending cutbacks on IT have spread from the US to Western Europe and Asia", causing most tech stocks to finish the week lower.

MBIA – The troubled bond-insurer rallied last week after it agreed to reinsure \$184bn in municipal bonds, raising hopes it can survive without its AAA rating, which it lost earlier this year. It finished the week almost 63% higher, albeit from depressed levels.



Europe

Overview

Despite weak data for the region, European equity markets finished the week higher as fears for the global economy were allayed following strong GDP data from the US.

Credit Agricole – France's third-largest bank announced Q2 profits that were 94% lower than Q2 2007, due to writedowns linked to US bond insurers. The stock still managed a 7% rise over the week as concern for the banking sector eased as investors hope that we are close to the end of credit-related writedowns.

Rio Tinto – Soaring commodity prices over the past year helped Rio Tinto double its H1 profit compared with 2007. The company also remains the subject of a hostile bid from rival group, BHP Billiton worth \$142bn.



Ireland

Overview

After better-than-expected earnings results for many companies, the ISEQ returned a strong 3% rise on the week.

Elan – The pharmaceutical company reported narrower losses for the first half of the year as sales of Tysabri trebled compared with the same period last year. It finished the week over 7% higher.

Kingspan – The buildings materials group announced that half-yearly profits were over 20% lower than H1 2007, as the weakening markets, rising raw material costs and unfavourable currency movement all impacted on the company. It still rose by 7% on the week after it's announcement that it had purchased the US business of composite panels manufacturer Metecno.



Asia Pacific

Overview

Asian stocks gained over the week, led by industrial companies and exporters, following the strong GDP figures from the US and rumours of a Chinese stimulus package which will increase the demand for commodities. Banking stocks also benefited as concerns for the global economy eased.

Japan – Japan's inflation rate rose to 2.4% for the first time in a decade as food and energy prices hit record highs over the past few months. Inflation is now rising faster than wages, worrying consumers and the government.

Bonds

Eurozone bonds gained slightly last week after weak data and retreating inflation figures raised hopes of interest rate cuts for the region. However, gains were pared after ECB members said that any talk of this was "premature". The Merrill Lynch >5 year government bond index rose 0.4% on the week.

Global Outlook

- The global growth rate is moderating from a very high level, with the cumulative effect of high oil prices adding downside risks to this picture. Much of the US data has been 'recession-like' while the eurozone economy has slowed abruptly in recent months. Asian (ex-Japan) economies are performing reasonably well, although a slower global economy will impact. Japan's lack of exposure to the credit crunch has been a positive, but recent data has been worrisome. Oil prices have fallen over 20% from their peak and this has helped lower inflation expectations and taken some of the pressure off interest rates.
- US interest rates are currently 2% and are expected to be fractionally higher by year end. The Fed normally doesn't raise rates when the unemployment rate is rising - as it is now - but inflation concerns have been high on the Fed's agenda and this may alter the historic pattern.
- The ECB has been surprised by the recent slowdown in the eurozone economy and this may temper its pre-occupation with inflation. Following its last 0.25% rate increase to 4.25% the ECB says it has no bias on rates - one way or another - from here and investors are no longer anticipating further rate hikes.
- After sharp price falls in the second quarter, following higher than expected inflation, government bonds became more reasonably valued; weaker economic data and the recent fall in oil prices have helped support the market recently. Bonds also continue to get safe-haven support during equity market volatility.
- Despite the recent sharp rally in the US dollar versus the euro, the dollar retains much of its valuation support versus European currencies. A volatile period of range trading is the most likely pattern as investors assess the willingness of the relevant central banks to alter interest rates over the coming months.
- At the moment the funds are underweight equities and slightly long bonds versus the manager average. Within equity sectors, financials and basic materials are underweight, while other sectors are closer to neutral. Geographically the funds have an underweight position in Ireland, Japan and the Pacific Basin, an overweight in the US and are more neutral in the UK and Europe.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star/Zurich. Advice should always be sought from an appropriately qualified professional.

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