

# Eagle Star Investments

## Weekly News

14th July 2008

### Global Overview

#### Markets retreat further

Equity markets across the world suffered another week in the red after a surge in oil prices to a new record and concerns over the health of the US financial system.

#### UK interest rates

The Bank of England left interest rates on hold on Thursday at 5% as expected, due to rising inflationary pressures. However, expectations are growing that the Bank will be forced to cut rates later this year because the economy continues to deteriorate.

#### US economic data

Retail stocks got a boost as US consumer confidence unexpectedly rose in June. Initial jobless claims also showed a much bigger-than-expected drop but concern for the US economy remains, as it is the 11th straight week that continuing claims were above 3 million.

#### Oil prices

An increase in gasoline stocks caused oil prices to retreat by over \$9, early last week. This was short-lived though, due to worries of threats to supplies from Iran and Nigeria, along with fears of disruptions to Brazilian output. Oil prices finished the week unchanged at €145 per-barrel.

Index		Year to Date Return 31.12.07 to 11.07.08		1 Week Return 04.07.08 to 11.07.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-15.3	-22.6	-1.9	-3.1
US	NASDAQ	-15.6	-22.5	-0.3	-1.5
Europe	FT/S&P Europe Ex. U.K.	-25.8	-25.8	-3.0	-3.0
Ireland	ISEQ	-36.3	-36.3	-9.2	-9.2
UK	FTSE 100	-18.5	-25.0	-2.8	-3.7
Japan	Topix	-12.9	-15.8	-0.9	-1.6
Hong Kong	Hang Seng	-20.2	-26.9	3.6	2.2
Australia	S&P/ASX 200	-21.5	-20.6	-2.0	-2.9
Bonds	Merrill Lynch Euro over 5 year Govt.	0.1	0.1	0.8	0.8

### Global Equities



#### United States

##### Overview

US equity markets finished the week in negative territory, over concerns that two Government-backed mortgage agencies may need to be bailed out by the government.

**Mortgage sector** – Government-backed mortgage agencies, Fannie Mae and Freddie Mac, fell heavily amid speculation that they may need to raise more capital. Both companies finished the week over 45% lower.

**Alcoa** – Mining company, Alcoa, rose by 57% over the week, after Q2 earnings beat expectations. These results were helped by aluminium prices rising by 7% over the period.



## Europe

### Overview

European markets declined sharply last week as worries regarding the oil price and fears about the banking sector continued unabated.

**Novartis** – Shares in the pharmaceutical company finished the week unchanged, after it announced it had upped its stake in Swiss pharmaceutical maker Speedel Holding, to 62%, and has plans to buy the remaining shares.

**Carrefour** – There was further evidence of a slowdown in consumer spending with sales at French supermarket group, Carrefour falling sharply in the second quarter.



## Ireland

### Overview

The Irish market plummeted by over 9% last week as financial stocks came under severe selling pressure following a weaker than expected AGM statement from Bank of Ireland.

**Banking stocks** – Irish Life and Permanent fell over 27%, following a negative rating from Moody's. AIB fell 20% while Anglo Irish Bank was down 19%.

**C&C** – C&C issued an interim management statement where it warned of an uncertain outlook due to the deteriorating economic environment. The stock was down 21% over the week.



## Asia Pacific

### Overview

The Hong Kong market bucked the international trend rising 3.6% as a leaked report indicated a significant decline in inflation from 7.7% to 7.1% month on month continuing its fall from 8.7% peak previously. The market was also helped by better than expected earnings guidance from Chinese banks.

**Japan** – The Japanese market also held up well as it is less exposed to the credit crunch than many of its global counterparts.

## Bonds

Eurozone bonds rose again last week due to safe haven buying as speculation grew that there would be a US government bail-out of government backed mortgage agencies, Freddie Mac and Fannie Mae. The Merrill Lynch >5 year government bond index rose 0.8% 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 US data being '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 a clear loss of growth momentum in the eurozone economy, the ECB's rhetoric has become more hawkish amid higher-than-forecast inflation data. Following its recent 0.25% rate increase the ECB says that it has no bias on rates - one way or another - from here. However investors are still anticipating at least a further 0.25% increase by year end.
- 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 the very strong gains recorded after the Bear Stearns rescue in March. Further volatility is likely as investors assess the impact of the soaring oil prices, the credit crunch and the 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 while investors digest the recent ECB rate hike and the possibility of any further moves.
- 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, while telecoms are overweight. Geographically the funds have an underweight position in Ireland, Europe, 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/Zurich. Advice should always be sought from an appropriately qualified professional.