Weekly
Investment news
27th August 2007
EAGLE STAR

Global Overview

Good week for equities
Investors experienced calmer conditions last week with equity markets worldwide delivering positive returns as the uncertainty on credit markets eased slightly.

Hong Kong
The Hang Seng index was the standout performer, rising by over 12%, its biggest weekly gain for seven years. The market soared on the back of news that Chinese investors would be allowed to invest directly in the city.

US housing market
There was comforting news on the beleaguered US housing market when a rise in US home sales for July was announced. There were also strong data on US durable goods orders.

Currencies
The Japanese yen fell against the US dollar and other high-yielding currencies as investors' risk appetite improved, bringing an increase in exposure to yen carry trades. Carry trades are where low-yield currencies are sold to fund purchases of higher-yielding currencies and assets. The decision by the Bank of Japan to leave rates on hold also weighed on the yen.

Market	Index	Year to Date Return 31.12.06 to 24.08.07		1 Week Return 17.08.07 to 24.08.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	4.3	0.7	2.3	0.8
US	NASDAQ	6.7	3.0	2.9	1.4
Europe	FT/S&P Europe Ex. U.K.	3.0	3.0	2.9	2.9
Ireland	ISEQ	-11.5	-11.5	2.7	2.7
UK	FTSE 100	0.0	-0.8	2.6	2.8
Japan	Topix	-5.7	-6.9	7.1	3.7
Hong Kong	Hang Seng	14.8	10.5	12.4	11.0
Australia	S&P/ASX 200	7.4	8.7	7.4	9.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.5	-0.5	0.3	0.3

Global Equities

United States

Overview

Sentiment improved on US markets last week as investors focused on September 18th when an interest rate cut from the Federal Reserve is expected.

Key Movers

Mortgage providers – Bank of America announced that it had invested $2 billion of new capital into Countrywide Financial, the US biggest mortgage lender. Accredited Home Lenders said it has stopped taking mortgage applications and would reduce its workforce by 1,600.

Home Depot – There were reports of reluctance on the part of three investment banks to fund the deal in which a group of private equity buyers plans to buy its wholesale supply division. There were subsequent reports that the sale has been agreed but at a lower price.

Europe

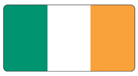
Overview

European markets recovered some ground last week as investor jitters settled down on better economic news from the US and lowered interest rate expectations.

Renewable energy – Vestas Windsystems, the world's biggest maker of wind turbines, rose almost 22% when it trebled its second-quarter operating profit, due to booming demand for wind turbines.

Steel sector – ArcelorMittal, the world's largest steelmaker, rose almost 17% after Credit Suisse upgraded the European steel sector.

German financials – Deutsche Bank and Commerzbank shares fell as concerns regarding the impact on their earnings of the subprime turmoil continued.



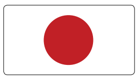
Ireland

Overview

Irish equities rose in line with their European counterparts, recording a 2.7% gain over the week.

Tullow Oil – The oil company was the star performer on the ISEQ, rising over 15% due to the successful appraisal of an oil well in Uganda.

C&C – The drinks group bucked the positive trend, recording a negative 8.8% return, as poor weather in the UK continued to undermine sales.



Asia Pacific

Overview

Asian markets bounced sharply last week as they responded to the moves by the Federal Reserve on the Friday of the previous week.

Australia & Japan – The Japanese market rose 7% as a retreat in the yen helped exporters, while the Australian market jumped 7.4%, helped by continued strength in commodity prices.

Bonds

Eurozone government bonds ended the week higher as short-dated bonds continued to benefit from investor worries regarding credit markets. The Merrill Lynch >5 year government bond index ended the week up 0.3%.

Global Outlook

- Global growth has been strong year to date, although it has moderated from 2006's robust levels. The major central banks had been focused on cyclical inflation pressures, but have clearly become concerned about dislocation in parts of the credit markets and how that might impact on real economic activity.
- The Fed kept rates at 5.25% at its last scheduled meeting, but its policy stance has since been moderated. It will be monitoring liquidity conditions in the credit markets and upcoming economic data in order to judge how policy may have to be changed over the coming weeks and months. At the moment, investors expect rate cuts of around 0.5% by year end.
- Markets have lowered eurozone interest rate expectations somewhat as a result of the turmoil in credit markets but ECB rhetoric has remained relatively hawkish. To date, it's only shorter-dated bonds that have benefited from the flight to safer assets, while longer-dated bonds have been more volatile.
- Credit markets are dominating investor sentiment at the moment. While recent Fed and ECB moves have helped calm the situation, equity markets will remain nervous until financing conditions return closer to normality.
- At the moment, the funds are neutral in bonds and closer to neutral in equities. Sector positions are overweight industrials and technology and underweight financials. In terms of geographical exposures, the funds are underweight Ireland, North America and Japan and overweight Europe and the Pacific Basin.