Weekly
Investment news

3rd September 2007

EAGLE STAR

Global Overview

Good week for equities
Most markets experienced solid gains last week as credit concerns eased slightly and calmer conditions prevailed. Investor sentiment was buoyed by the hope that there could be an interest rate cut in the US this month.

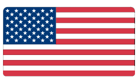
Bush & Bernanke speeches
The Federal Reserve Chairman, Ben Bernanke, reiterated promises that the Fed will continue to inject liquidity into the market. However, he didn't give any indication as to whether there would be a rate cut this month. Separately, following the recent turmoil in the US housing market, US president George Bush unveiled measures aimed at helping homeowners with subprime mortgages and financial difficulties to continue living in their houses.

US housing market
There was concern early last week after figures showing existing home sales in the US had dropped for the fifth consecutive month. Existing home sales are now growing at their slowest rate in nearly five years.

Oil price
The oil price rose again last week as another hurricane threatened already tight petrol supplies. Oil finished the week at just over $74 per-barrel.

Market	Index	Year to Date Return 31.12.06 to 31.08.07		1 Week Return 24.08.07 to 31.08.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	3.9	0.5	-0.4	-0.1
US	NASDAQ	7.5	4.0	0.8	1.0
Europe	FT/S&P Europe Ex. U.K.	4.3	4.3	1.2	1.2
Ireland	ISEQ	-10.7	-10.7	0.9	0.9
UK	FTSE 100	1.3	1.0	1.3	1.8
Japan	Topix	-4.3	-5.0	1.4	1.8
Hong Kong	Hang Seng	20.1	15.9	4.6	4.9
Australia	S&P/ASX 200	10.2	10.3	2.6	1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.4	-0.4	0.1	0.1

Global Equities



United States

Overview
Most US markets gained last week as investors remain hopeful of an interest rate cut from the Federal Reserve when they meet on the 18th September.

Key Movers
Investment banks – Following a report from Merrill Lynch, in which it cut its profit estimates for leading investment banks, share prices for Lehman Brothers, Bear Stearns and Citigroup all experienced sharp falls.

Technology sector – So far, the technology sector has not been exposed to the credit market woes and negative investor sentiment. This helped Dell report stronger-than-expected quarterly profits, while Apple rose by over 2% on the back of rumours of the unveiling of its new iPod system.

Europe

Overview

European markets recorded further gains last week as worldwide sentiment improved and due to solid earnings results.

Nokia – Stocks in the Finnish mobile phone manufacturer Nokia gained by over 7% last week after it launched an online music service.

InBev – The Belgian brewer announced a better-than-expected, 27% rise in second-quarter profit. Its share price increased by over 7%.

Accor – The French hotel chain gained by over 4% after it doubled its interim dividend and announced a €500m share buy-back.

Ireland

Overview

Despite weakness in the financial sector, Irish equities rose modestly last week.

Kingspan – The building materials company reported that pre-tax profits jumped by 30% this year, compared with the same period last year. Its share price rose by over 10% in anticipation of good results.

Financial sector – Although easing, credit concern is still affecting the financial sector. Anglo Irish Bank and Allied Irish Bank dropped by 2.2% and 3.7% respectively, while Bank of Ireland recorded a marginal gain for the week.

Asia Pacific

Overview

Asian markets continued to rise last week as investor sentiment improved after speeches from President Bush and Ben Bernanke helped calm credit concerns.

Hong Kong – As renewed appetite for risk continued, the Hang Seng rose by almost 5%, to finish the week at a new all time high.

Bonds

Eurozone government bonds were relatively unchanged last week as credit concerns eased and investors wait to see the stance the ECB adopts at this weeks meeting. The Merrill Lynch >5 year government bond index ended the week up 0.1%.

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, but it is reluctant to reduce its main fed funds interest rate. Despite this, investors still expect rate cuts of around 0.5% by year end.
- While markets have lowered eurozone interest rate expectations slightly, as a result of the turmoil in credit markets, 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. Investors are keenly awaiting the outcome of this weeks ECB meeting.
- Credit markets are dominating investor sentiment at the moment. While recent Fed and ECB moves to add liquidity to the money markets 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 and Japan, overweight Europe and the Pacific Basin and closer to neutral in other areas.

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