Weekly
Investment news

17th September 2007

EAGLE STAR

Global Overview

Equities gain
Most equity markets rose last week as credit concerns were put on the back burner and investors awaited the Fed's meeting this week to determine its stance on interest rates.

US economic data
There was further weak data from the US after the Retails Sales Report showed that retail sales were lower again in August. This increased the speculation that the Fed will need to cut interest rates this week in order to boost the economy.

Currencies
Weaker economic data and expectations that the Fed will cut interest rates this week pushed the dollar to a new low against the euro. The €/$ rate ended the week at 1.39.

Oil price
The oil price broke through the $80 per-barrel mark late last week after Hurricane Humberto cause the closure of some oil refineries. The price fell back slightly and finished the week at just over $79 per-barrel.

Market	Index	Year to Date Return 31.12.06 to 14.09.07		1 Week Return 07.09.07 to 14.09.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	4.7	-0.4	2.1	1.5
US	NASDAQ	7.7	2.5	1.4	0.8
Europe	FT/S&P Europe Ex. U.K.	2.4	2.4	1.1	1.1
Ireland	ISEQ	-16.9	-16.9	-4.5	-4.5
UK	FTSE 100	1.1	-1.3	1.6	-0.1
Japan	Topix	-8.1	-9.6	-0.8	-2.9
Hong Kong	Hang Seng	24.7	18.6	3.8	3.2
Australia	S&P/ASX 200	11.2	13.0	0.5	1.6
Bonds	Merrill Lynch Euro over 5 year Govt.	0.3	0.3	-0.2	-0.2

Global Equities

United States

Overview
US equity markets gained as investors anticipate an interest rate cut when the Fed meets this week.

Key Movers
McDonald's – After same-store sales for August rose by 8% and it increased its annual cash dividend by 50%, the food company's share price rose by over 12%.

Exxon Mobil – On the back of oil reaching a record high last week, the oil giant's share price rallied by 3.4%.

Apple – Following the sale of over 1 million iPhones, the technology manufacturer's share price recouped its loss from the previous week, with a rise of over 5%.

Europe

Overview

European markets moved higher last week. However, they had some of their gains erased on Friday following market concerns regarding the banking sector. This was due to the announcement by Northern Rock that it had to avail of emergency funding from the Bank of England.

Northern Rock – The Bank of England had to step in to provide an emergency loan to the banking and mortgage giant after it ran into difficulties raising money on the wholesale financial markets. This caused widespread panic in the financial market and investors feared further funding problems in the banking system. Its share price fell by over 30% following the announcement. However, it has insisted that it is still solvent and that customers should not be concerned.

Alcatel-Lucent – The telecoms company issued its third outlook warning this year in which it downgraded its growth from 5% to flat. This caused its share price to fall by almost 9%.

Ireland

Overview

The Irish market tumbled last week as financial stocks bore the brunt of the fall out from the credit problems experienced by Northern Rock.

Elan – Shares in the pharmaceutical company fell last week after fears that a patient taking the company's multiple sclerosis drug, Tysabri, had contracted a virus similar to the virus which caused the suspension of the drug's sales back in 2005. Elan's share price fell by over 8%.

Financial stocks – Financial stocks fell sharply last week on investor fears credit market issues would hurt growth and earnings of financial stocks in the future. Bank of Ireland, Anglo Irish Bank and Irish Life & Permanent fell by 7%, 9% and 11% respectively.

Asia Pacific

Overview

Most Asian markets rose last week. However, Japan struggled on concerns that the government may downgrade its economic assessment to reflect the weakness in consumption and capital spending and due to the resignation of Prime Minister Abe Shinzo.

Hong Kong – Equities in Hong Kong finished the week at a record high after rising almost a further 4% last week. This was due to strong demand for property stocks.

Bonds

Bonds fell slightly on the week as investors found a renewed appetite for equities and while waiting to see what stance on interest rates the Fed takes at its meeting later this week. The Merrill Lynch >5 year government bond index ended the week down 0.2%.

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 did add liquidity to try to unseize the money markets. Public commentary from the Fed suggests a reluctance to ease its main interest rate; nonetheless the markets expect at least a 0.25% cut this week and further reductions 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 – a stance repeated at its last press conference. Investors nevertheless expect hardly any further tightening this year and are likely to continue to regard bonds as a safe haven, given the credit turmoil.
- Credit and money markets are dominating investor sentiment at the moment. While 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 slightly overweight 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.