

Global Overview

Equities bounce back

It was a strong week for equities with most markets rising sharply on the back of an interest rate cut in the US and surprisingly upbeat earnings from a number of big players. The Federal Reserve met on Tuesday and cut interest rates by 0.5% to 4.75%. The 0.5% cut surprised the market as many investors had expected a cut of just 0.25%.

Bank of England

In the UK, the Bank of England was forced to reconsider its reluctance to ease tight liquidity conditions as problems surrounding mortgage lender, Northern Rock continued to escalate. The bank made £10bn available to the market.

Currencies

There was a sharp sell-off in the US dollar which fell by 1.3% against the major currencies. As a result the euro rose to a new record high, gaining 1.6% against the dollar, closing the week at just under 1.41.

Commodities

It was a stellar week for commodities with gold particularly strong. Gold prices rose to levels not seen since 1980 due to its safe haven status during the current market turmoil. Oil prices also rose due to supply concerns and declining US inventories. The price surged by over 5% on the week to \$83 per barrel.

Market	Index	Year to Date Return 31.12.06 to 21.09.07		1 Week Return 14.09.07 to 21.09.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	7.6	0.8	2.8	1.2
US	NASDAQ	10.6	3.6	2.7	1.0
Europe	FT/S&P Europe Ex. U.K.	5.3	5.3	2.9	2.9
Ireland	ISEQ	-16.4	-16.4	0.6	0.6
UK	FTSE 100	3.8	0.3	2.7	1.6
Japan	Topix	-7.7	-10.9	0.5	-1.4
Hong Kong	Hang Seng	29.5	21.2	3.8	2.2
Australia	S&P/ASX 200	12.1	15.3	0.8	2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.1	-1.1	-1.4	-1.4

Global Equities



United States

Overview

US equity markets recorded their best week in six months as an aggressive interest rate cut by the Federal Reserve helped boost investor sentiment.

Key Movers

Oracle – There was positive earnings news from Oracle when it announced a 25% rise in quarterly profits and a sharp rise in software sales. The stock rose 9.5% on the week.

Investment banks – There were mixed results from some of the large US investment banks. Goldman Sachs and Lehman Brothers surprised the market with upbeat results while Bear Stearns and Morgan Stanley disappointed.

FedEx – The delivery company was down over 4% on the week when it cut its earnings forecast due to high energy costs and uncertainty about the near term economic outlook.



Europe

Overview

European equity markets also rallied this week as interest rate cuts in the US led to expectations that the ECB may halt interest rate increases.

Siemens – The German industrial group rose 11%, on anticipation of a positive analyst day this week and speculation that it would sell off its lighting division and make further portfolio adjustments.

Stora Enso – The world's largest paper manufacturer announced plans to sell its North American unit to Cerberus Capital for \$2.1 billion. The stock rose 7% on the week.

Vinci – The French builder benefited from a broker recommendation highlighting the undervaluation of its motorways concession business and strength in the French economy. The stock rose over 10% on the week.



Ireland

Overview

The Irish market stabilised last week but continued to sharply underperform its global counterparts.

Financial stocks – Irish financial stocks have been heavily hit during the recent credit market turbulence. Bank of Ireland and Anglo Irish Bank recorded positive returns last week; however AIB and Irish Life & Permanent ended the week in the red.

C&C – C&C was the strongest performer on the Irish market over the week. The share price was up 9.7%. However, the stock has suffered badly this year due to weak demand because of bad weather and is down 50% on the year.



Asia Pacific

Overview

Asia-Pacific stocks excluding Japan produced excellent returns last week with new highs recorded in China, India and Hong Kong.

Hong Kong – Equities in Hong Kong finished the week at a record high after rising a further 3.8% last week. This was due to strong demand for property stocks following the interest rate cut in the US.

Bonds

Bond prices weakened significantly over the week despite the interest rate cut in the US. The cut saw investors unwind safe-haven positions in bonds due to renewed appetite for equities. The Merrill Lynch >5 year government bond index ended the week down 1.4%.

Global Outlook

- Global growth has been strong year to date, although it has moderated from the robust levels of 2006. 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 surprised the markets with a 0.5% cut in its key interest rate last week. Investors continue to expect further cuts of 0.25%-0.5% by year end, as the Fed puts more emphasis on the risks to the economic outlook rather than concern over inflation.
- The US rate cut had little impact on eurozone rate expectations. Investors expect the ECB to remain on hold for some time, judging that US rate cuts and a stronger euro exchange rate will be sufficient to offset the still hawkish stance of many ECB members. Bonds continue to be a hostage to sentiment in equity and corporate credit markets.
- Equity markets were rightly buoyed by the Fed's larger than forecast rate cut. Investors will want to see further normality return to the money and credit markets, but the perception that the Fed will "cut as needed" is definitely a boost to sentiment.
- At the moment, the funds are slightly overweight in bonds and 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.

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

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