

## Global Overview

### Volatility subsides

The recent rate cut in the US has resulted in reduced volatility on world markets. Most markets made steady gains over the week, with particularly strong returns in the Asia Pacific region.

### Economic Data

In the US, there was poor housing and durable goods data. New home sales fell by a worse-than-expected 8.3% and have now fallen by 21% in the past year, while durable goods orders dropped by 4.9% in August. This has increased speculation that the Fed will be forced to cut interest rates further when it next meets. Unexpectedly though, retail sales grew in August despite the credit-crunch which markets were experiencing.

### Currencies

On the back of weak economic data, there was a further sell-off in the US dollar and, as a result, the euro rose to a new record high, closing the week at slightly over 1.42.

### Commodities

Oil prices rose last week as investors bought crude oil as a hedge against a weaker dollar, while persistent fears of a supply disruption during the rest of the hurricane season supported gains also. Oil finished the week at \$83.50 per barrel, just shy of its record high.

| Market    | Index                                | Year to Date Return<br>31.12.06 to 28.09.07 |           | 1 Week Return<br>21.09.07 to 28.09.07 |           |
|-----------|--------------------------------------|---|-----------|---------------------------------------|-----------|
|           |                                      | Local Currency<br>%                         | Euro<br>% | Local Currency<br>%                   | Euro<br>% |
| US        | S&P 500                              | 7.7   | -0.3      | 0.1                                   | -1.0      |
| US        | NASDAQ                               | 11.9  | 3.6       | 1.1                                   | 0.0       |
| Europe    | FT/S&P Europe Ex. U.K.               | 5.7   | 5.7       | 0.4                                   | 0.4       |
| Ireland   | ISEQ                                 | -16.2                                       | -16.2     | 0.2                                   | 0.2       |
| UK        | FTSE 100                             | 4.0   | 0.4       | 0.2                                   | 0.1       |
| Japan     | Topix                                | -3.8  | -7.6      | 4.2                                   | 3.7       |
| Hong Kong | Hang Seng                            | 36.0  | 26.2      | 5.0                                   | 4.1       |
| Australia | S&P/ASX 200                          | 15.8  | 20.6      | 3.3                                   | 4.6       |
| Bonds     | Merrill Lynch Euro over 5 year Govt. | -0.6  | -0.6      | 0.5                                   | 0.5       |

## Global Equities



### United States

#### Overview

US equity markets traded cautiously last week as investors await third-quarter earnings results to determine the effect of the recent credit-crunch on companies' profits.

#### Key Movers

**Sallie Mae** – Following the announcement that a consortium was willing to renegotiate the terms of a €25bn deal to take over the student loan provider, Sallie Mae's share price rose 2.8% over the week.

**Starbucks** – The popular chain of coffee shops had its rating cut to a sell by the Banc of America. This led to its share price declining by over 4%.

**KB Home** – Problems in the housing market over the past quarter caused KB Home to record a third-quarter loss. Its price dropped a further 8.1% over the week.



## Europe

### Overview

European equity markets traded in a range last week.

**Nordea Bank** – Nordea rose 7% over the week on speculation that the government's 20% stake may be acquired by its smaller rival SEB, thereby leading to a value-creating merger of the two banks. SEB rose 3% over the week.

**Alcatel Lucent** – Increased hopes that rapid restructuring and accelerated disposal of some assets would benefit the company caused the share price to surge by over 11% last week. This was following recent profit warnings which have eroded investors' confidence in the company.



## Ireland

### Overview

The Irish market gained in line with most of Europe last week, helped mainly by the banking sector.

**Bank of Ireland** – The bank gained strongly last week after reaffirming its previous trading statement of low-double-digit returns for the year-ending March 2008. Its share price surged 9% over the week.

**Fyffes** – The Irish fruit distributor is aiming to double the size of its business over the next five years and rumours are that a fully privately owned Filipino company called Lapanday may be a potential target. Over the week, however, its share price fell by 3.7%.

**C&C** – The beverage company was one of the weakest performers on the Irish market last week. This was following a reduction in its planned investment from €200m to €115m, after it scrapped proposals to develop further its warehousing, apple-crushing and maturation divisions. This, along with the continued reduced sales due to bad weather, caused the share price to fall by 14% over the week and 57% year-to-date.



## Asia Pacific

### Overview

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

**Japan** – Equities in Japan gained strongly over the week on the back of an increase in Japan's trade surplus for August.

**Australia** – Strong oil and commodity prices helped the Australian market record a new record high following a further 3.3% gain.

## Bonds

Bond rose over the week in response to weaker-than-expected housing and durable goods orders in the US, plus a weaker-than-forecast IFO survey of the German economy. The Merrill Lynch >5 year government bond index ended the week up 0.5%.

## 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.
- At its last meeting, the Fed surprised the markets with a 0.5% cut in its key interest rate. 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. While investors are grappling with the earnings implication of the credit dislocation, they will want to see further normality return to the money and credit markets before regaining their poise; nonetheless, the perception that the Fed will "cut as needed" is a boost to market 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, Japan and the UK, overweight Europe (though less so) and the Pacific Basin and closer to neutral in the US.

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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