Weekly investment news

15th October 2007

EAGLE STAR

Global Overview

Markets gain

Equity markets recorded gains last week, with many hitting new highs due to higher oil and commodity prices while negative sentiment towards the banking sector affected the Irish market.

Economic data

There was strong economic data released in the US last week. Good retail sales along with a narrowing of the US trade deficit caused an upgrade of third quarter gross domestic product growth.

Metals

Metal prices rose strongly last week as it is expected that the booming demand from emerging markets would offset the decreased demand from the weakening US housing market. Gold was almost 1% higher over the week, hitting a 28-year high, lead rose almost 3%, also reaching a new high, while aluminium rose almost 3%.

Oil price

The oil price rose late last week after a fall in inventories, just prior to the peak winter season, along with fears that Turkey might invade Iraq. The oil price finished the week at just over $83 per-barrel.

Market	Index	Year to Date Return 31.12.06 to 12.10.07		1 Week Return 05.10.07 to 12.10.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	10.1	2.0	0.3	-0.5
US	NASDAQ	16.2	7.6	0.9	0.2
Europe	FT/S&P Europe Ex. U.K.	8.8	8.8	0.8	0.8
Ireland	ISEQ	-14.8	-14.8	-5.4	-5.4
UK	FTSE 100	8.2	4.6	2.0	1.2
Japan	Topix	-1.4	-7.6	0.0	-1.3
Hong Kong	Hang Seng	48.0	37.5	6.1	5.4
Australia	S&P/ASX 200	18.9	26.7	2.0	2.4
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.1	-1.1	-0.6	-0.6

Global Equities

United States

Overview

US equity markets rose further last week with the S&P 500 and the Dow Jones Industrial Average hitting all-time highs during the week.

Key Movers

General Motors – The car maker experienced a 22% rise in third-quarter sales in Latin America, Africa and the Middle East. General Motors share price rose by over 10% on the week.

Boeing – The airline manufacturer's share price fell by almost 5% over the week after it announced that delivery of its new aircraft would be delayed by six months.

BEA Systems – Technology giant Oracle made an offer to buy the software company, BEA Systems, last week for almost $7bn. BEA Sytems share price surged by 33%, while Oracle rose just over 1% as the market commentators say there may be a rival bid.

Europe

Overview

European markets gained last week as merger and acquisition speculation re-emerged in many sectors.

Commerzbank – The German bank was the subject of bid speculation last week, with both Société Générale and Intesa Sanpaolo being suggested as possible buyers. Commerzbank's share price rose by over 3% while Société Générale and Intesa Sanpaolo both fell by 4% and just over 2% respectively.

Telefónica – Shares in the Spanish telecoms group surged by over 11% last week after a positive investor day where they upped long term guidance for growth rates

Ireland

Overview

The Irish market underperformed most European markets last week, mainly due to the negative sentiment towards the banking sector.

C&C – Poor first-half results along with a warning about lower second-half sales figures caused the share price to fall further last week. The company also announced that cost-cutting may be imminent and that job cuts would be part of this. Shares are now at a two-year low after falling by 14% over the week.

Asia Pacific

Overview

Rising oil and commodity prices pushed many Asia Pacific markets to all-time-highs. These included China, Australia, Singapore and India.

Hong Kong – Hong Kong was one of the strongest performers last week as expectations grew that it would be the main beneficiary of Chinese funds after the relaxation of investment rules by Beijing.

Bonds

Government bonds fell over the week in response to strong US trade and labour data, while eurozone bonds also await further economic data from the region in order to determine interest rate expectations. The Merrill Lynch >5 year government bond index ended the week down 0.6%.

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. With Fed officials clearly cautious about further near-term rate cuts and some of the recent data better-than-forecast, investors have pared back rate expectations. There is now less than 0.25% easing expected by year end.
- Following the recent ECB meeting, investors expect eurozone rates 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 are much calmer following the US interest rate cut. Investors are grappling with the earnings implication of the credit dislocation and they also want to see further normality return to the money and credit markets. Nonetheless, the perception that the Fed will "cut as needed" has been 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 underweight some of the consumer-related areas. In terms of geographical exposures, the funds are underweight Ireland and Japan, overweight the Pacific Basin and closer to neutral in other areas.

EAGLE STAR HOUSE FRASCATI ROAD BLACKROCK CO DUBLIN IRELAND TELEPHONE 01 283 1301 FAX 01 283 1578 WEBSITE www.eaglestarlife.ie