

Global Overview

Markets drop

Most equity markets ended the week in the red due to poor earnings results in the US and the rising oil price. This has caused concern that the credit crunch may continue to hurt US economic growth in the coming months.

Economic data

On top of the poor earnings results, there was some weak economic data in the US. Housing starts fell by over 10% in September, while the Fed's beige book on business sentiment showed that the economy began to lose momentum towards the end of the third-quarter.

Currencies

Weaker economic data and expectations that the Fed will cut interest rates next week resulted in further weakness in the US dollar, causing it to lose value against most currencies. The €/ \$ rate ended the week at 1.42.

Oil price

Persistent worries about tight supplies ahead of the winter peak season and fresh geopolitical tensions helped to push oil prices higher last week. The price hit a record of \$90 per-barrel during the week, before easing slightly to finish at \$88.60.

Market	Index	Year to Date Return 31.12.06 to 19.10.07		1 Week Return 12.10.07 to 19.10.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	5.8	-2.2	-3.9	-4.5
US	NASDAQ	12.8	4.3	-2.9	-3.5
Europe	FT/S&P Europe Ex. U.K.	6.5	6.5	-2.1	-2.1
Ireland	ISEQ	-17.2	-17.2	-2.9	-2.9
UK	FTSE 100	4.9	1.6	-3.0	-3.0
Japan	Topix	-5.3	-9.5	-4.1	-2.7
Hong Kong	Hang Seng	47.6	37.0	2.2	1.6
Australia	S&P/ASX 200	18.3	24.0	-0.6	-2.3
Bonds	Merrill Lynch Euro over 5 year Govt.	0.5	0.5	1.6	1.6

Global Equities



United States

Overview

US equity markets had their poorest week since July following the release of some weak quarterly corporate earnings numbers.

Caterpillar – The world's leading manufacturer of construction and mining equipment cut its full-year outlook on fears that housing market problems are spreading to the rest of the economy. Its share price retreated by almost 8%.

Banking sector – Bank of America & Washington Mutual both reported steep falls in third quarter earnings. Bank of America's share price fell by almost 8%, while Washington Mutual fell 17%.



Europe

Overview

European markets also ended the week in negative territory on the back of poor earnings results and fears for the US economy.

Ericsson – The Swedish telecoms equipment company's share price fell by 29% after it announced that third-quarter profits would be lower-than-forecast.

Philips – Poor earnings results in its medical equipment division caused the electronics company's share price to retreat by almost 9%.

Scottish & Newcastle – The beverage company's share price soared 19% last week, after the announcement that Carlsberg and Heineken are in talks to make an offer for to buy the company.



Ireland

Overview

The Irish market had a poor week as the credit-crunch contributed to weaker financial stocks and lower-than-expected earnings results from many companies worldwide.

Smurfit Kappa – The paper packaging giant lost 11% of its value over the week, following a number of profit-warnings from European paper companies.

CRH – In the wake of a profit-warning from Caterpillar which was another sign of the construction slowdown in America, CRH's share price fell by 6% over the week as fears grew of lower earnings going forward.



Asia Pacific

Overview

Many markets retreated from record levels as profit-taking set in after the recent strong gains.

India – The Indian market fell last week after regulators proposed measures to limit the flow of funds from unregistered foreign investors. This caused some market volatility, with the MSCI India index falling by 4.3% on the week, despite hitting a new high on Tuesday.

Bonds

Bonds rallied last week as fears for the US economy grew and sentiment towards equities became negative. It is expected that the Fed may be forced to lower interest rates when it meets next week. The Merrill Lynch >5 year government bond index ended the week 1.6% higher.

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. While Fed officials are clearly cautious about further near-term rate cuts, investors have once again become confident that rates will be cut next week and again early next year.
- 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 have improved since 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. Further bouts of nervousness are quite possible. However, the perception that the Fed will "cut as needed" is a support 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.

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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