

## Global Overview

### Equity markets retreat

The rocky road for global equity markets continued last week after economic data and the interest rate decision in the US caused concern amongst investors worldwide.

### Interest rates

The US Federal Reserve cut interest rates by 0.25% on Tuesday, which leaves them at 4.25%, 1% lower than the start of the year. This quarter-point reduction was seen as more modest than investors had hoped for. The following day, the Fed announced plans, along with other central banks, to make over \$60bn available to financial institutions to try and help the tight credit conditions in money-markets. Both of these moves caused increased fear for investors and led to a sell-off on markets worldwide.

### Economic data

Economic data, released late last week, caused investors to reduce expectations of further rate-cuts by the Fed in the near future. Producer prices, in the US, rose at their fastest rate in over 30 years, causing headline inflation to rise to a two-year high of 4.3%, while retail sales more than doubled investors forecasts.

### Eurozone inflation

Figures released for November showed rising food and energy prices, causing European inflation to accelerate to the fastest pace since May 2001. Inflation rose from 2.6% to 3.1% over the month, causing concern that the European Central Bank will be prevented from cutting interest rates to counter slowing economic growth.

Market	Index	Year to Date Return 31.12.06 to 14.12.07		1 Week Return 07.12.07 to 14.12.07	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	3.5	-5.5	-2.4	-1.1
US	NASDAQ	9.1	-0.4	-2.6	-1.2
Europe	FT/S&P Europe Ex. U.K.	3.5	3.5	-1.5	-1.5
Ireland	ISEQ	-24.6	-24.6	-2.1	-2.1
UK	FTSE 100	2.8	-3.0	-2.4	-1.3
Japan	Topix	-10.7	-14.4	-3.9	-4.0
Hong Kong	Hang Seng	38.1	25.7	-4.4	-3.1
Australia	S&P/ASX 200	14.5	14.4	-2.5	-2.7
Bonds	Merrill Lynch Euro over 5 year Govt.	0.1	0.1	-0.6	-0.6

## Global Equities



### United States

#### Overview

Despite the 0.25% interest rate-cut, higher inflation and strong retail sales caused equity market to suffer, as investors feel the Fed will not be in a position to continue cutting rates in the coming months.

#### Key Movers

**Citigroup** – The appointment of a new chief executive failed to help the share price rise after it was forced to take on to its balance sheet, \$49bn in structured investment vehicles. Over the week, its share price fell over 10%.

**Black & Decker** – The power tool maker cut its quarterly and full-year profit forecasts, due to the worse-than-anticipated conditions in North America. Its share price ended the week almost 11% lower.

**Microsoft** – After a stockbroker raised its 2008 profit estimates for the technology company, its share price bucked the trend of many technology stocks and rose by 2.3%.



## Europe

### Overview

Inflation concerns, along with fears for the US economy, caused European markets to fall, in what continues to be a volatile year for equities.

**UBS** – Swiss bank, UBS announced a further \$10bn of subprime-related write-downs early last week. This is the biggest write-down by a European bank and caused its share price to fall over 3%.

**Banking stocks** – The rough year for financial stocks continued last week with some of the largest banks like, Société Générale, Commerzbank and Fortis, all falling due to concerns that the Fed's actions are not enough to help credit markets.



## Ireland

### Overview

The Irish market fell in line with most European markets.

**Irish Life & Permanent** – A trading statement late last week in which it revealed that, if tight credit conditions continue, earnings may fall "by a high single-digit percentage". This led to its share price falling by over 11%.

**C&C** – Fears that market data in the UK due shortly would show a further decline in market share for its Magners brand, caused C&C's share price to fall by almost 12%. The share price is now 72% lower than the start of the year.



## Asia Pacific

### Overview

Asian stock markets recorded their worst week since August after Japanese business confidence dropped more-than-expected and speculation rose that China will increase interest rates to combat inflation.

**Japanese banks** – Morgan Stanley lowered its earnings estimates for the three largest Japanese banks, as fears of a mild recession in Japan will keep profit growth low.

## Bonds

Higher than forecast inflation, along with the hawkish stance from the ECB resulted in a poor week for bonds. An announcement by the major central banks of additional liquidity injections into money markets over year-end removed some of the safe haven premium in government bonds. The Merrill Lynch >5 year government bond index was down 0.6% on the week.

## Global Outlook

- Global growth has been strong during 2007, although it has moderated from last year'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.
- Allowing for last weeks 0.25% cut, the Fed has lowered rates by 1% in recent months. Its worries about higher inflation - spurred by energy and commodity prices - seem to have moderated slightly, encouraging investors to expect further reductions in 2008.
- Following its recent meeting, investors continue to expect the ECB to keep eurozone rates 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.
- In the recent past, financial stocks in particular have been hit heavily over concerns regarding exposure to US housing. Investors are also worried about the reliability of earnings' forecasts over the next 12 months, for the markets as a whole. While US rate cuts have helped sentiment somewhat, nervousness and volatility look set to persist for the time being, before confidence returns.
- At the moment, the funds are close to neutral in bonds and equities. Sector positions are pretty balanced at the moment. 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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