Weekly Investment News

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EAGLE STAR

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Global Overview

Markets fall further

Equity markets worldwide finished a volatile week in negative territory as concerns grew that the US is slipping into a recession.

Bush & Bernanke

The chairman of the Federal Reserve, Ben Bernanke, warned on Thursday, that the risks of an economic downturn had grown more pronounced. This view was supported by the Philadelphia Federal Reserve's weak manufacturing activity report. President Bush also announced plans for a $140bn package of tax cuts and other measures to try and boost the economy. Unfortunately, these did little to boost investor sentiment.

US economic data

US retail sales figures for December showed that retail sales dropped by 0.4% over the month, resulting in 2007 being the weakest year for consumer spending since 2002. The unemployment rate climbed to a two-year peak of 5%, after rising 0.3% in December. Both of these caused some analysts to warn that the US economy had already slipped into a recession.

Commodities

Fears that the slowing US economy will result in lower demand for oil and precious metals cast a shadow on both oil and gold last week. Despite the price of gold hitting a record high on Monday, it finished the week almost 2% lower, as demand concerns and profit-taking set in. Oil went below the $90 per-barrel mark after if dropped over 3%, finishing the week at $89.75.

	Index	Year to Date Return 31.12.07 to 18.01.08		1 Week Return 11.01.08 to 18.01.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-10.4	-9.8	-5.4	-4.2
US	NASDAQ	-12.5	-12.0	-4.1	-2.8
Europe	FT/S&P Europe Ex. U.K.	-9.9	-9.9	-5.1	-5.1
Ireland	ISEQ	-6.0	-6.0	-1.9	-1.9
UK	FTSE 100	-8.9	-10.1	-4.8	-3.8
Japan	Topix	-9.1	-3.6	-2.6	0.4
Hong Kong	Hang Seng	-7.9	-7.4	-6.2	-5.0
Australia	S&P/ASX 200	-9.4	-8.4	-3.9	-4.3
Bonds	Merrill Lynch Euro over 5 year Govt.	2.6	2.6	1.1	1.1

Global Equities

United States

Overview

Worries that the US economy has begun to enter a recession caused stocks to drop sharply last week. Fears about the credit ratings of bond insurers being cut also weighed on markets.

Intel – The tech giant's quarterly revenue failed to meet analysts' expectations, leading to a share price fall of over 13%.

Merrill Lynch – Writedowns on credit assets soared further in quarter four, resulting in the investment bank recording over $7.8bn in losses for 2007. Its share price fell over 10% on the week.

Advanced Micro Devices – On a week with few standout performers, Advanced Micro Devices managed to gain over 13% after its earnings beat analysts' expectations.

Sprint – Telecoms stocks fell after Sprint announced a big drop in post-paid subscribers. The stock was down 29% on the week.

Europe

Overview

European equity markets failed to escape the worldwide trend of concerns for the US economy.

Novartis – After a turbulent week for pharmaceuticals, which included raids on many companies in relation to a price-fixing inquiry, Novartis recorded worse-than-expected quarterly earnings. This caused its share price to fall 8%.

Hypo Real Estate – Following many other financial stocks recently, the German company took a hit of €390m on collateralised debt obligations. This sent its share-price sharply down over 33% for the week.

Ireland

Overview

The Irish market performed slightly better than most European markets, after a rally late in the week pared some of the losses.

Elan – The US Food and Drug Administration announced that it had approved the Tysabri product for the treatment of Crohn's Disease.

C&C – C&C reported that its forecast annual earnings would be at the lower end of analyst expectations because of weaker UK demand.

Asia Pacific

Overview

There were substantial sell-offs on all Asian Pacific markets last week as fears of a recession in the US grew, which would result in lower demand for materials and products from the area. Continued government intervention, by increasing reserve ratio requirements in attempts to slow down property price increases, has seen a fall in bank and property stocks in China.

Bonds

Eurozone bonds gained strongly last week as investors turned away from sliding equity markets and also focussed on the ECB's Bank Lending Survey, which helped raise expectations that the ECB will cut interest rates this year, despite current hawkish ECB rhetoric. The Merrill Lynch >5 year government bond index was up 1.1% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth. While a 'soft landing' in the US remains the most likely outcome, markets will continue to focus on downside risks to growth. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.

- Slowing growth and housing market pressures argue for further interest rate cuts in the US. Indeed investors now expect at least a further 0.5% reduction at the end of January, and possibly even a 0.75% reduction. Despite continued hawkish comments from the ECB, current eurozone rates are likely to be at their peak, although they may not be cut until towards the end of the year.

- High food and energy prices continue to be a worry to policy-makers and provide a somewhat tricky environment for bond investors, although bonds will continue to get safe-haven support during equity market volatility.

- Lower interest rates offer valuation support to global equities, but there are concerns about the health of the banking sector and the overall earnings' outlook, which may produce further volatility over the coming period.

- The US dollar remains the primary focus of currency markets. After last year's weakness, the US dollar now has valuation support versus European currencies. The slow pace of Chinese currency appreciation is likely to persist.

- At the moment, the funds are neutral in bonds and underweight in equities versus the manager average. Sector positions are reasonably balanced although financials remain underweight. Geographically the funds have an underweight position in Ireland and Japan and more of a neutral stance in the US, UK and Europe. The Pacific Basin remains overweight, though less so.

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