

Weekly Investment News

28th January 2008



EAGLE STAR

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Global Overview

Volatile week

There were mixed results for equity markets last week, in what was an extremely volatile trading period following an emergency rate cut in the US, which initially boosted sentiment.

Emergency rate cut

On Tuesday, the US Federal Reserve cut interest rates by 0.75% to 3.5%, a week prior to its scheduled meeting. This move was designed to calm markets following heavy losses and the unexpected downgrading of one of the largest bond insurers Ambac, by rating agency Fitch. Investors are expecting a further rate cut when the Fed holds its meeting this week.

Société Générale

Early in the week, the French investment bank, SocGen, discovered that unauthorised trading had taken place within the firm on the European futures markets. This trading was linked back to a rogue trader who had apparently built up a position of €50bn. SocGen subsequently sold-off these holdings, resulting in a loss of almost €5bn.

Commodities

The price of gold rallied after the US rate cut, rising over 3% on the week and reaching an all-time high. The oil price rose slightly, finishing the week at just under \$91 per-barrel.

Index		Year to Date Return 31.12.07 to 25.01.08		1 Week Return 18.01.08 to 25.01.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-9.4	-9.9	0.4	0.1
US	NASDAQ	-12.3	-12.8	-0.6	-0.9
Europe	FT/S&P Europe Ex. U.K.	-12.3	-12.3	-2.7	-2.7
Ireland	ISEQ	-2.5	-2.5	3.5	3.5
UK	FTSE 100	-9.1	-9.9	-0.6	0.3
Japan	Topix	-8.9	-5.2	0.2	0.1
Hong Kong	Hang Seng	-9.7	-10.3	-0.3	-0.6
Australia	S&P/ASX 200	-7.6	-7.9	2.0	1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	2.3	2.3	-0.2	-0.2

Global Equities



United States

Overview

US equity markets experienced a turbulent week. The emergency rate-cut and the economic stimulus package, however, helped markets pare some of their losses and finish the week relatively unchanged.

Apple – The tech giant reported a 57% rise in quarterly profit. Its share price fell, however, after it lowered its outlook for the first quarter of 2008. The stock finished the week over 19% lower.

Ambac – The specialist bond-insurer had its rating cut from AAA to AA by credit rating agency Fitch, causing its share-price to fall heavily. It also wrote-down \$5bn linked to credit derivatives exposures. Talk that private investor, Wilbur Ross, may be interesting buying the company, helped the share price rally and recover some of its losses.

Financials – Following the rate cut in the US, financial stocks rallied and the sector was the standout performer over the week. JPMorgan, Citi and Bear Stearns all rose sharply.



Europe

Overview

European markets had one of their most volatile weeks over the past few years due to concerns over the US economy.

Société Générale – After the uncovering of fraud within the firm, which overshadowed its announcement of losses related to the credit crisis, SocGen's share price fell over 13% on the week.

Volkswagen – After posting double-digit growth in operating profit for 2007, the German car maker's share price rose by over 5% after it said it expected further progress in 2008.



Ireland

Overview

The Irish market performed strongly after banking stocks rallied from their lows over the week.

Banking stocks – Irish banking stocks rose strongly following the rate-cut in the US. Bank of Ireland, Anglo Irish Bank and AIB all rose around 8%.



Asia Pacific

Overview

Asian markets finished the week marginally lower despite experiencing one of their biggest ever one-day falls during the week.

Hong Kong – On Tuesday, the Hang Seng index fell almost 9%, however, it recovered most of its losses in the following days as expectations increased that the US economy may avoid a recession.

Bonds

Eurozone bonds gained early last week as investors turned away from turbulent equity markets, but these gains were erased after the President of the ECB, Jean-Claude Trichet, warned about the dangers of high inflation. The Merrill Lynch >5 year government bond index was down 0.2% 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 consensus outcome of most economists, markets continue to focus on recession risks. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- Slowing growth, housing market pressures and deteriorating financial conditions argue for further interest rate cuts in the US. Despite last week's dramatic 0.75% interest rate cut, investors expect a further reduction this week and more cuts to come after that. 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 falls.
- Lower interest rates offer valuation support to global equities, but this factor has been secondary to more pressing concerns about the health of the banking sector and the overall earnings' outlook. Further volatility is highly likely.
- 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 slightly 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, overweight in the US and more of a neutral stance in the Pacific Basin, UK and Europe.

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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