Weekly Investment News

11th February 2008

EAGLE STAR

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Global Overview

Markets retreat

Equity markets worldwide suffered sharp falls after further weak economic data heightened investors' fears that the US economy would fail to avoid a recession.

Economic data

On Tuesday, the US Institute for Supply Management's non-manufacturing business activity index fell to its lowest level since 2001. The figure of 41.9% indicates a contraction in the economy. Following this, US markets suffered their biggest one-day loss of 2008.

Interest rates

The ECB and Bank of England held interest rate meetings last week. In response to slowing economic growth the BoE cut rates by 0.25%, to 5.25%, while the ECB held rates constant at 4% once again. The market drew some comfort from Jean-Claude Trichet, president of the ECB, who commented that the ECB had not discussed raising interest rates.

Currencies

Following comments from the ECB, which raised hope of a cut in eurozone interest rates, the euro suffered its biggest weekly decline against the dollar for 18 months. The €/$ rate at the end of the week was 1.45, 2.1% lower on the week. The euro also declined 0.8% and 1.1% against the yen and sterling respectively.

	Index	Year to Date Return 31.12.07 to 08.02.08		1 Week Return 01.02.08 to 08.02.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-9.3	-8.9	-4.6	-2.6
US	NASDAQ	-13.1	-12.6	-4.5	-2.5
Europe	FT/S&P Europe Ex. U.K.	-14.2	-14.2	-4.2	-4.2
Ireland	ISEQ	-5.7	-5.7	-4.4	-4.4
UK	FTSE 100	-10.4	-11.5	-4.1	-3.0
Japan	Topix	-12.8	-8.8	-3.7	-2.9
Hong Kong	Hang Seng	-15.6	-15.2	-2.7	-0.7
Australia	S&P/ASX 200	-10.8	-8.3	-3.2	-1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	3.7	3.7	0.6	0.6

Global Equities

United States

Overview

Fears that the US economy is heading towards a recession were heightened by weaker US economic data.

Tiffany & Co – Following its 2008 earnings guidance which pleased investors, the jeweller's share price rose over 4% on Friday. However, it was still down over 2% on the week. It did warn, however, that it remained cautious about the outlook for its US business for the first half of the year.

Banking stocks – Citigroup and Morgan Stanley were two of the weakest performers over the week as credit concerns and writedown fears remain.

Technology stocks – Weak first calendar-quarter sales outlooks for technology companies caused stocks to fall last week. Cisco and Apple both fell over 5%.

Europe

Overview

European markets retreated over concern about the US economy and mixed earnings results.

Société Générale – Reduced expectations of an imminent takeover bid and the market starting to refocus on the upcoming raising of capital, caused SocGen to lose 11% over the week.

Carmakers – Most car manufacturers' stocks fell heavily due to renewed macroeconomic concerns. Renault and Porsche were the largest fallers, declining 12% and 10% respectively.

Ireland

Overview

The Irish market fell in line with most European stocks as banking stocks came under further pressure.

Elan – Ahead of Q4 2007 results this week, the stock rose over 3% due to expectations of better-than-expected revenue from its Tysabri product, as disclosed by Biogen who partner Elan in Tysabri.

Fyffes – Fyffes full-year results were inline with forecasts, with the guidance for 2008 remaining unchanged.

Ryanair – While Q3 earnings for Ryanair were inline with estimates, the low-cost carrier gave cautious guidance on full-year 2009 earnings due to high oil prices, weakening consumer demand expectations and the recent weakness of sterling. The stock had been weak into the update and lost a further 2% over the week.

Asia Pacific

Overview

Asian markets finished the week in negative territory. However, they were spared further falls due to the shortened trading week for the Lunar New Year holiday. Rising concern of a recession in the US and weak construction stocks contributed to the week's losses.

Bonds

Eurozone bonds rose last week after the ECB softened its stance on interest rates and increased expectations that there may be a rate cut in the coming months. The Merrill Lynch >5 year government bond index was up 0.6% 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, with investors expecting at least an additional 0.5% reduction over the next few weeks. The ECB has finally changed its tone and effectively confirmed that rates have peaked, although they may not be cut for some time yet.
- 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.

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