

Weekly Investment News

3rd March 2008



EAGLE STAR

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Global Overview

Volatility returns

Despite gains early in the week, markets retreated following poor US economic data and fears of further writedowns due to renewed credit concerns.

US economic data

Expectations of a half per-cent rate cut from the Fed in the coming weeks rose due to an increase in worrying US economic data. Softer-than-expected economic data, higher jobless claims and higher inflation data, along with falling house sales and prices, contributed to renewed concern for the US economy.

Sterling

Slowing house prices and lower economic growth in the UK, along with better-than-expected German unemployment figures, caused sterling to weaken to an all-time-low against the euro. The €/£ ended the week at just over 0.76.

Commodities

Investors turned to commodities as a hedge against the weakening dollar, with oil and gold rising to all-time highs. The oil price finished the week at \$102 per-barrel, while gold has now risen 16% year to date. The US dollar fell against most major currencies and the €/£ rate finished the week at a record of just above 1.52.

Index		Year to Date Return 31.12.07 to 29.02.08		1 Week Return 22.02.08 to 29.02.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-9.4	-12.9	-1.7	-3.9
US	NASDAQ	-14.4	-17.7	-1.4	-3.7
Europe	FT/S&P Europe Ex. U.K.	-12.7	-12.7	0.2	0.2
Ireland	ISEQ	-7.5	-7.5	0.2	0.2
UK	FTSE 100	-8.9	-12.3	-0.1	-1.5
Japan	Topix	-10.3	-7.5	0.2	0.4
Hong Kong	Hang Seng	-12.5	-15.7	4.4	2.2
Australia	S&P/ASX 200	-12.1	-9.8	0.2	-0.4
Bonds	Merrill Lynch Euro over 5 year Govt.	3.3	3.3	0.9	0.9

Global Equities



United States

Overview

Weak economic data late last week caused US markets to drop as investors feared that the US would fail to avoid a recession.

Bond insurers – Bond-insurers, Ambac Financial and MBIA, had a much-needed boost after ratings firms Moody's and S&P re-affirmed their triple-A ratings for both companies. Despite this, credit concerns caused both stocks to fall over the week.

AIG – Writedowns of \$11.5bn in derivative products resulted in the world's largest insurer reporting a loss of \$5.3bn. AIG's share-price fell almost 4% on the week.



Europe

Overview

Most European markets retreated as weak US economic data caused concern amongst investors worldwide.

Swiss Re – The re-insurer had a positive week after Q4 losses were less than expected and the company avoided any further derivative product writedowns. Its share price rose by over 9% on the week.

HBOS – The UK retail bank fell 7% after disclosing higher exposure to Alt-A mortgages. It also gave a cautious outlook saying, 'market conditions will remain uncertain through 2008'.

InBev – After it recorded better-than-expected full-year profit for 2007 and raised its dividend per share, the Belgian brewer's stock rose by just over 10%.

BNP Paribas – The French bank struggled last week following speculation that it was in talks to purchase Société Générale, the troubled French bank. BNP's share price fell over 2% on the week.



Ireland

Overview

The Irish market finished the week in marginally positive territory, after good performances from Anglo Irish Bank and Kerry Group.

Elan – The pharmaceutical company endured a rocky week after the Food & Drug Administration announced that Elan's MS drug may cause liver damage. Its share price fell 3% on the week.

Kerry Group – After reporting strong earnings for 2007, the new CEO gave a good assessment as to why and how the company can progress at a faster rate than previously. This was well received by investors and its share price rose 6% on the week.



Asia Pacific

Overview

Hong Kong was a strong performer, rising over 4% on the week. Most Asian markets finished the week in positive territory.

Japan – After gaining early in the week, weaker-than-expected industrial production data caused Japan to retreat and finish unchanged over the week. It raised concern regarding economic growth in the Asian Pacific region.

Bonds

Eurozone bonds rose last week, as investors' expectations rose that the ECB will need to follow the US and cut rates as economies slow and the currency hits all-time highs. The Merrill Lynch >5 year government bond index was up 0.9% 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 central case 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% cut in two weeks' time. 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, but might struggle until clear signs of a cut in eurozone interest rates emerge. The slow pace of Chinese currency appreciation is likely to persist.
- At the moment, the funds are neutral in bonds and close to neutral 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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