Weekly Investment News

10th March 2008

EAGLE STAR

A member of the Zurich Group

Global Overview

Markets fall sharply

Markets fell sharply after further weak US economic data heightened investor fears that the US is entering a recession, while credit market concerns also remain to the forefront.

US employment data

Figures released on Friday showed that non-farm payrolls dropped by 63,000 in February, marking the biggest fall in employment since March 2003. Markets have now priced in an expected interest rate cut of 0.75% when the Fed meets next week.

Credit market spreads

Credit spreads rose to alarming levels following record US mortgage delinquencies and concerns about further problems in the financial sector. In an effort to help markets, the Fed injected further emergency funds to increase liquidity in the banking system, as availability of funds on both sides of the Atlantic remains tight.

Interest rate meetings

Both the ECB and Bank of England left interest rates unchanged when they met last week. ECB President, Jean-Claude Trichet, was hawkish once again as rising inflation continues to be of concern in the eurozone. After this, the US dollar fell against the euro and the €/$ rate ended the week just above 1.53, a new record.

Commodities

Commodities gained as investors continued to use them as a hedge against the weakening dollar. The oil price finished the week at just over $105 per-barrel, while gold continued towards the $1,000 mark, finishing at $976 per troy ounce.

Index		Year to Date Return 31.12.07 to 07.03.08		1 Week Return 29.02.08 to 07.03.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-11.9	-16.3	-2.8	-3.9
US	NASDAQ	-16.6	-20.7	-2.6	-3.7
Europe	FT/S&P Europe Ex. U.K.	-15.9	-15.9	-3.7	-3.7
Ireland	ISEQ	-11.2	-11.2	-4.0	-4.0
UK	FTSE 100	-11.7	-14.8	-3.1	-2.8
Japan	Topix	-15.4	-12.5	-5.8	-5.5
Hong Kong	Hang Seng	-19.1	-23.0	-7.5	-8.6
Australia	S&P/ASX 200	-17.0	-16.2	-5.5	-7.1
Bonds	Merrill Lynch Euro over 5 year Govt.	2.9	2.9	-0.4	-0.4

Global Equities

United States

Overview

Both poor employment data and credit concerns contributed to heavy falls last week, as investors fear a recession in the US looms.

Ambac Financial – The bond-insurer's long-awaited proposal to protect its triple-A rating disappointed investors when it was announced last week, resulting in a sell-off and its share price finishing over 14% lower. The company expects, however, to remain triple-A rated.

Mortgage lenders – Data released showing that mortgage delinquencies soared caused the sector to fall over the week. Countrywide, one of the largest mortgage lenders, fell by 20%.

Europe

Overview

Escalating credit worries, fears of a US recession and the hawkish tone of the ECB President Jean-Claude Trichet caused European markets to fall heavily last week.

UBS – Speculation that the global financial services firm had been forced to sell a portfolio of US mortgages at a large discount caused its share price to fall over 12% on the week.

Akzo Nobel – The chemicals group bucked the trend last week after it rose almost 8%. This followed its expectation-beating fourth-quarter earnings results.

Autos – Downbeat comments regarding the growth of the European motor market from the chief executive of Peugeot, caused the sector to lose value over the week. Peugeot fell 4%, Renault 8% and Fiat 9%.

Ireland

Overview

The Irish market followed European markets, finishing the week 4% lower.

Anglo Irish Bank – Anglo Irish Bank issued a trading statement re-confirming its 15% earnings per-share growth for the year, but acknowledged the risks of financial market disruption and the potential impact of a protracted deterioration in the wider economic environment. The stock fell over 9% on the day as the market reacted to the more cautious tone of the statement.

CRH – CRH reported full year numbers reflecting 19% growth for 2007. While CRH acknowledged that there were economic headwinds, it gave a positive outlook for 2008. The stock finished the week down almost 2%.

Asia Pacific

Overview

Asian markets suffered heavy losses over concerns for the outlook of the US markets.

Hong Kong – Hong Kong suffered its worst weekly decline since March 2001 after it fell by 7.5%.

Bonds

Eurozone bonds were affected by the credit/liquidity crisis last week. German bonds dramatically outperformed other Eurozone bonds due to their benchmark status. Yields on German bonds fell over the week as a result, while peripheral markets such as Italy and Greece suffered higher yields in thin liquidity conditions. The Merrill Lynch >5 year government bond index fell 0.4% 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 now expecting close to 0.75% in additional cuts then the Fed meets next week. The ECB has finally changed its tone and effectively confirmed that rates have peaked, although a rate cut is not yet on its agenda.
- 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 remains 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. While the US dollar now has valuation support versus European currencies, it might continue to 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 underweight equities versus the manager average. Sector positions are reasonably balanced although financials remain underweight. Geographically the funds have an underweight position in Ireland, Japan and Europe, are overweight (though less so) in the US and are more neutral in the Pacific Basin and the UK.

Eagle Star Life Assurance Company of Ireland Limited
Eagle Star House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.eaglestarlife.ie