Weekly Investment News

18th March 2008

EAGLE STAR

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Global Overview

Markets retreat

Despite the Fed's latest set of moves to ease liquidity concerns, news of Bear Stearns difficulties caused a sell-off on markets on Friday.

Bear Stearns

Bear Stearns announced on Friday that it required access to a $30bn credit facility from the Federal Reserve to support liquidity in the investment bank. This caused major concerns regarding the financial sector, while its share price also fell by 57%, to $30. On Sunday night, JP Morgan Chase moved to acquire the company in an emergency buyout, with the proposed sale price at a heavily discounted $2 per share.

Federal Reserve

Last Tuesday, the Federal Reserve announced a $200bn plan that would allow certain financial institutions to swap mortgage-related securities in return for US government securities. The Fed also announced a 0.25% cut in its discount interest rate (the rate at which financial institutions borrow from the Fed) with the term of borrowing extended from 30 to 90 days.

Commodities

Commodities gained further as investors continued to use them as a hedge against the weakening dollar and current credit concerns. The oil price finished the week at just over $110 per-barrel, while gold continued its strong run by hitting the $1,000 per troy ounce mark for the first time.

	Index	Year to Date Return 31.12.07 to 14.03.08		1 Week Return 07.03.08 to 14.03.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-12.3	-18.2	-0.4	-2.3
US	NASDAQ	-16.6	-22.3	0.0	-1.9
Europe	FT/S&P Europe Ex. U.K.	-16.5	-16.5	-0.7	-0.7
Ireland	ISEQ	-13.5	-13.5	-2.6	-2.6
UK	FTSE 100	-12.8	-16.9	-1.2	-2.5
Japan	Topix	-19.1	-15.5	-4.4	-3.4
Hong Kong	Hang Seng	-20.1	-25.3	-1.2	-3.0
Australia	S&P/ASX 200	-17.9	-18.1	-1.1	-2.2
Bonds	Merrill Lynch Euro over 5 year Govt.	3.3	3.3	0.4	0.4

Global Equities

United States

Overview

US markets were dominated by news of the Fed's measures to increase liquidity in the market and concerns for troubled investment bank, Bear Stearns.

Bear Stearns – Shares in the worlds 5th largest investment bank plunged last week after its liquidity position deteriorated and it was forced to tap emergency funds from the Federal Reserve. The bank has since been bid for by JP Morgan Chase after an emergency sale and the deal is subject to shareholder approval.

General Motors – Concerns over its future earnings and weaker sales expectations caused General Motors to fall by over 10% last week.

Financial stocks – Financial stocks suffered after asset writedowns since the start of 2007 hit almost $200bn and worries grew that further banks would be affected by liquidity problems. Banks, insurance companies, mortgage lenders and bond insurers all retreated over the week.

Europe

Overview

News from the US dominated sentiment on European markets last week. The led to most markets finishing the week in the red, with financial stocks being hit hardest.

EADS – As the dollar continues to weaken against the euro, companies such as EADS, the aerospace corporation, that rely heavily on exports to the US continue to suffer. Despite reassurance from management that it would seek measures to deal with this dollar weakness, the stock finished the week almost 10% lower.

UBS – The Swiss bank fell by almost 6% on the week, on concerns that its capital position is worsening.

Carlyle Capital – The private-equity company caused panic in financial markets after announcing that it could not meet escalating margin calls from its lender which would cause it to default on its debt. Its share price slumped by over 90% over the week.

Ireland

Overview

Despite some positive earnings results, the Irish market fell as financial stocks came under pressure once again.

Irish Continental Group – The shipping, transport and leisure group announced record results for 2007, however, its outlook indicated that the market will be more challenging going forward.

Grafton Group – Grafton Group announced strong results for 2007 after weaker than expected performance in Ireland was almost offset by a stronger-than-anticipated result from the UK. The company warned of tougher times ahead due to the weakening housing market and euro/sterling rate.

Asia Pacific

Overview

The weakening US dollar and concerns for the financial system caused Asian markets to endure another negative week.

Japan – Japanese markets fell to a 2½ year low as the weakening dollar hit exports and earnings outlooks. Last week, the dollar hit at 12 year low against the Yen.

Bonds

With equity markets volatile, eurozone bonds gained due to their traditional safe-haven status. Along with this weeks expected interest rate cut, US bonds were helped by falling inflation rate data. The Merrill Lynch >5 year government bond index rose 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.
- Despite another week of unprecedented Fed action, including yesterday's 0.75% cut in short rates, investors still expect more rate cuts over the coming months. Currently an additional 0.75% in rate reductions is forecast for the end of the year, bringing rates to just over 1.5%. 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, Europe and the UK, are overweight in the US and are more neutral in the Pacific Basin.

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