

Weekly Investment News

25th March 2008



EAGLE STAR

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Global Overview

Mixed markets

With the US rate cut and the takeover of Bear Stearns making the headlines, equity markets finished, what was a shortened trading week, in mixed territory.

US interest rate

On Tuesday, the US Federal Reserve cut interest rates by a further 0.75%, to 2.25%. The Fed has cut interest rates aggressively in order to ease the credit crisis and help the US avoid a recession. However, it also reiterated its concerns about high inflation.

US housing data

Sales of existing homes in the U.S. unexpectedly rose in February by 2.9%, the first rise in seven months. Investors had been expecting a decline and this data helped alleviate investor fears for the US housing market.

Commodities

Commodity prices fell from all-time highs last week after profit-taking set in and investors feared for an economic slowdown in the US. Oil dropped from \$111 to finish the week at just over \$100 per-barrel, while gold dropped from \$1,000 to \$920 an ounce.

Index		Year to Date Return 31.12.07 to 21.03.08		1 Week Return 14.03.08 to 21.03.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-9.5	-14.6	3.2	4.5
US	NASDAQ	-14.9	-19.7	2.1	3.3
Europe	FT/S&P Europe Ex. U.K.	-18.1	-18.1	-1.9	-1.9
Ireland	ISEQ	-11.2	-11.2	2.7	2.7
UK	FTSE 100	-14.9	-19.7	-2.4	-3.4
Japan	Topix	-17.3	-12.3	2.3	3.7
Hong Kong	Hang Seng	-24.1	-28.2	-5.0	-3.9
Australia	S&P/ASX 200	-19.1	-21.5	-1.5	-4.2
Bonds	Merrill Lynch Euro over 5 year Govt.	3.6	3.6	0.4	0.4

Global Equities



United States

Overview

US markets rallied last week after a further rate cut of 0.75%, along with positive earnings results from Morgan Stanley, Lehman Brothers and Goldman Sachs.

Lehman Brothers – Amid speculation that the investment bank had liquidity problems similar to Bear Stearns, its share price tumbled by almost 20% at the start of the week. Following denials of this from the company, along with better-than-expected earnings results, its share price rallied to finish the week 24% higher.

Mortgage sector – Following the regulator's move to reduce the capital requirements of government backed companies, Freddie Mac and Fannie Mae's share price soared by over 50%. This move frees them up to inject up to \$200bn into the housing market.

Bear Stearns – Negotiations are still on-going for the purchase of the investment bank by JP Morgan. News yesterday that it increased its offer, from \$2 to over \$10 per share, caused Bear Stearns shares to surge further, resulting in its share price rising by over 130% on the week.



Europe

Overview

In what was a shortened trading week, most European indices finished the week in the red as commodity prices retreated from all-time highs and investors became increasingly concerned on the broader global economic implications of the credit crisis.

Ericsson – The telecoms company warned that first-half earnings at its joint venture Sony Ericsson could fall due to lower consumer demand worldwide. Its share price fell by almost 10% over the week.

Credit Suisse – A profit warning from the Swiss bank caused its shares to fall by nearly 2%. The bank announced that, based on current estimates, it was unlikely to be profitable in the first quarter.

Metal stocks – Fears of weakening demand due to an economic slowdown caused commodity and resource stocks to fall last week. Among them were Germany's Thyssen-Krupp, Sweden's SSAB and France's ArcelorMittal.



Ireland

Overview

The Irish market rose by 2.7% as banking stocks gained over the week.

Banking stocks – AIB and Bank of Ireland experienced strong gains last week as sentiment towards banking stocks worldwide improved, following the Fed's recent liquidity intervention and rate cuts.



Asia Pacific

Overview

Despite gains towards the end of the week, concerns for the financial system and demand for exports, due to the weak dollar, caused most Asian markets to finish the week in negative territory.

Bonds

With equity markets volatile, eurozone bonds gained due to their traditional safe-haven status. US bonds were helped by the 0.75% cut in interest rates, along with the expectation of a further cut before year end. 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.
- Following another period of unprecedented Fed action, including last week's 0.75% cut in short rates, investors now see US rates bottoming out at just under 2% at the end of the year. This would involve a further reduction in rates of just over 0.25%. While the ECB has finally changed its tone, a rate cut is not yet on its agenda.
- High food and energy prices continue to be a worry for 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, although some of the worries about the banking system have been eased by measures taken by central banks and policymakers, especially in the US. Further volatility is 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 the UK, are overweight in the US and are more neutral in the Pacific Basin 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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