Weekly Investment News

31st March 2008

EAGLE STAR

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Global Overview

Volatile week

It was a volatile week on equity markets following mixed economic data which heightened investor's expectations of a recession in the US.

US economic data

There was mixed economic data from the US last week. The core inflation rate, which excludes energy and food prices, rose marginally to 2%, leaving inflation at the top of the Fed's desired 1-2% range. Jobless claims were better-than-expected, however, weak consumer confidence and personal spending underlined the recession risks facing the economy.

German business confidence

Data released in Germany showed that German business confidence rose to a seven-month high, according to the Ifo Survey. This confirmed that Europe's largest economy is coping with higher oil prices and a rising euro.

Oil rises again

Oil gained strongly last week due to geopolitical concerns in Iraq following an explosion at a key export pipeline. At one stage it rose above $108 per-barrel and finished the week roughly 5% higher at just over $105 per-barrel.

Index		Year to Date Return 31.12.07 to 28.03.08		1 Week Return 21.03.08 to 28.03.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-10.4	-17.2	-1.1	-3.1
US	NASDAQ	-14.8	-21.2	0.1	-1.9
Europe	FT/S&P Europe Ex. U.K.	-14.9	-14.9	3.9	3.9
Ireland	ISEQ	-11.3	-11.3	-0.1	-0.1
UK	FTSE 100	-11.8	-18.1	3.6	2.0
Japan	Topix	-15.7	-12.4	2.0	-0.1
Hong Kong	Hang Seng	-16.3	-22.4	10.3	8.1
Australia	S&P/ASX 200	-15.6	-18.4	4.4	3.9
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	-1.4	-1.4

Global Equities

United States

Overview

Weak economic data, poor earnings results and rising oil prices caused US markets to remain volatile last week.

Oracle – The technology giant, which is often considered a bellwether for the sector, posted weaker than expected quarterly results. Oracle also stated that fear of a recession has curtailed spending on tech goods. Although it is its seasonally weakest quarter, its share price finished the week just over 3% lower.

JC Penny – The department store cut its earnings forecasts for the first quarter, resulting in its share price falling by over 11% on the week.

Investment banks – Despite good earnings results from Goldman Sachs and Lehman Brothers the previous week, both stocks fell over the week after analysts cut their future earnings estimates. Goldman Sachs fell 8%, while Lehman Brothers fell 22%.

Europe

Overview

European markets finished the week higher after financial stocks rose following moves from the central banks of the UK and Switzerland, to improve liquidity in the market.

Allianz – Shares of Germany's largest financial rose over 11%, on speculation that a merger of its Dresdner Bank unit may take place in the coming months.

Commerzbank – Despite the current market turmoil and weakening outlooks from many banks, the German bank has reiterated its outlook for 2008. This caused its share price to rise over 16%.

Technology stocks – After Lehman brothers cut the earnings forecast for Google and Oracle reported weak results, European tech stocks retreated. They were boosted though when Accenture reported better-than-expected results.

Ireland

Overview

The Irish market finished the week marginally lower after a rocky week for financial stocks.

Independent News & Media – Independent News & Media reported strong full-year results for 2007, while also delivering an upbeat outlook statement for 2008. Its share price rose by over 23% on the week.

Asia Pacific

Overview

Asian stocks gained strongly last week despite concerns for the US economy. Financial and commodity stocks were among the best sectors. Hong Kong was the best performing region, returning over 10% on the week.

Bonds

Eurozone bonds fell heavily last week in reaction to stronger European equity performance and somewhat more hawkish comments from ECB president, Jean-Claude Trichet. The Merrill Lynch >5 year government bond index fell 1.4% 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 the recent 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 changed its tone, a rate cut is definitely not yet on its agenda and its rhetoric remains quite hawkish.

- High food and energy prices continue to be a worry for policy-makers and provide a somewhat tricky environment for bond investors. Although bonds do not provide a lot of value at the moment, they 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 slightly underweight 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, are overweight in the US and are more neutral in the Pacific Basin, Europe and the UK.

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