



Global Overview

Markets advance

Equity markets finished the week higher, following good economic data on both sides of the Atlantic, along with renewed merger and acquisition activity.

US economic data

Data released last week showed that US retail sales had fallen marginally in April. However, when auto sales, which are currently struggling, are omitted, sales rose by 0.5%, which beat analysts' expectations. This was followed by a smaller-than-expected rise in consumer prices for April. Prices only rose by 0.2% in April, however, it is feared that higher energy prices may cause inflation figures to rise over the coming months.

Eurozone GDP growth

Figures released showed that the German economy grew at its fastest rate since 1996, in the first quarter. This, along with France's strong performance, helped the Eurozone grow at an expectation-beating rate over the first three months of the year.

Oil price

Oil prices rose early last week, as fears grew that China would increase demand after a number of hydro-electric power plants were damaged during the earthquake. Despite this, oil prices finished unchanged at \$126 per barrel, after Saudi Arabia said it would increase oil production to its highest level in two years.

Index		Year to Date Return 31.12.07 to 16.05.08		1 Week Return 12.05.08 to 16.05.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-2.9	-9.1	2.7	1.9
US	NASDAQ	-4.7	-10.8	3.4	2.7
Europe	FT/S&P Europe Ex. U.K.	-9.1	-9.1	1.9	1.9
Ireland	ISEQ	-7.3	-7.3	0.0	0.0
UK	FTSE 100	-2.4	-9.8	1.6	1.2
Japan	Topix	-5.4	-4.7	4.0	2.4
Hong Kong	Hang Seng	-7.9	-13.8	2.2	1.4
Australia	S&P/ASX 200	-6.5	-4.7	2.8	3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	1.6	1.6	-1.2	-1.2

Global Equities



United States

Overview

US equity markets gained strongly due to merger activity and good economic data..

CNET – Shares in broadcast and media company, CNET, soared by over 48% on the week, after CBS announced plans to buy the company at a huge premium to its share price.

EDS – Electronic Data Systems shares gained strongly following Hewlett-Packards move to buy the company, in order to better compete with IBM. EDS finished the week almost 30% higher, while HP declined by 4%.



Europe

Overview

Commodity related stocks helped European equity markets finish the week higher. Banking stocks pared back some of the gains due to further weak Q1 earnings.

EADS – The aerospace company announced expectation-beating Q1 profits, after it cut spending on research & development and increased its output, resulting in it delivering a record 48 planes in March. Its share price rose by almost 9% over the week.

Société Générale – France's second-largest bank reported a fall of 23% in Q1 profits, following a rogue trading scandal in January and further writedowns related to the collapse of the US subprime mortgage market. Its value dropped by over 2% on the week.



Ireland

Overview

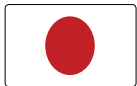
Despite some positive trading updates, the ISEQ finished the week unchanged.

Paddy Power – Shares in the bookmaker gained by over 5% after it announced that operating profits will top analysts' expectations after better-than-expected gross win margins.

Kingspan Group – Kingspan's trading update was unchanged from management's full year outlook given in early March. The group still expects a fall in profit, as UK and Irish demand slows, costs rise and euro gains continue to reduce overseas earnings.

Glanbia – In a positive AGM statement, Glanbia said it is confident that it will meet market expectations for this year of double digit growth.

AIB – AIB reiterated its earning guidance for 2008 of low single-digit growth. The stock was unchanged on the day.



Asia Pacific

Overview

Most Asian markets finished the week in positive territory, after strong earnings and better-than-expected economic data in the US which eased inflationary concerns.

Japan – Japanese electronics company, Sony, gained strongly over the week, after it announced an upbeat outlook for operating profit. Despite the slowdown in US consumer spending, profits from its Playstation 3 consoles will offset this weakness.

Bonds

Data released for the Eurozone showed that economic growth for Q1 was stronger than expected, led mainly by Germany's out-performance. This led to further inflation concerns, which would reduce the possibility of any rate-cuts by the European Central Bank. The Merrill Lynch >5 year government bond index fell 1.2% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth. Some of the US data has already been 'recession-like' and investors will continue to focus on growth risks, regardless of whether or when a recession is actually declared. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact.
- Current US interest rates of 2% are now expected to be the low point in rates for this cycle, with rates seen rising by year end; a pattern that would be very atypical judging by past easing and tightening cycles. It would imply a sharp "V-shaped" recovery in the real economy, something that seems unlikely at present.
- Meanwhile, the ECB's rhetoric remains quite hawkish amid higher-than-forecast inflation data. Its past record suggests that such concerns can be moderated by a sufficiently weak real economy. On balance, rates are likely to stay on hold for some time yet. A sharp rebound in the US economy could even tempt the ECB to raise rates again, although that is not the central case.
- High food and energy prices continue to be a worry for policy-makers and provide a tricky environment for bond investors. Government bonds do not provide a lot of value at the moment, but will continue to get safe-haven support during any further equity market volatility.
- Worries about the banking system have eased significantly and this has allowed equity markets and risk assets to rebound. Further volatility in equity markets is likely as investors assess the impact of the credit crunch and cyclical slowing of the global economy.
- The US dollar remains the primary focus of currency markets but has now regained valuation support versus European currencies; weaker European data in the past few weeks plus a view that US rates have troughed may give the dollar some further support.
- At the moment the funds are slightly long both bonds and equities versus the manager average. Within equity sectors, oil and gas plus telecoms are overweight and financials are underweight. Geographically the funds have an underweight position in Ireland and Europe, are overweight in the US and the Pacific Basin and are more neutral in Japan and the UK.

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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