Weekly Investment News

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EAGLE STAR

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Global Overview

Markets retreat

Equity markets had their worst weekly declines since early February, after a surge in oil prices stoked inflation and growth concerns.

Eurozone economic data

Despite the rising oil price and strong euro, German business confidence unexpectedly increased last month. The resilience of German data, allied with strong Q1 euroland growth and higher-than-expected inflation, have caused the ECB to increasingly focus on risks to price stability, causing investors to now start to price for rate increases before year end.

US economy

Weak US housing and consumer confidence data continue to portray an economy flirting with recession. Higher producer-price inflation is increasingly in focus for both investors and the Fed, with no further rate cuts expected.

Oil price

Oil prices continued their dramatic 2008 rise, after US stockpiles unexpectedly fell and data released showed that China imported 6% more in the last month alone. The price per barrel finished the week almost 5% higher, at $132, after hitting a record peak of $135.

	Index	Year to Date Return 31.12.07 to 23.05.08		1 Week Return 16.05.08 to 23.05.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-6.3	-13.5	-3.5	-4.8
US	NASDAQ	-7.9	-14.9	-3.3	-4.6
Europe	FT/S&P Europe Ex. U.K.	-11.9	-11.9	-3.1	-3.1
Ireland	ISEQ	-12.5	-12.5	-5.7	-5.7
UK	FTSE 100	-5.7	-13.0	-3.4	-3.6
Japan	Topix	-6.7	-6.6	-1.4	-1.9
Hong Kong	Hang Seng	-11.1	-18.0	-3.5	-4.8
Australia	S&P/ASX 200	-9.0	-7.8	-2.8	-3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	1.0	1.0	-0.6	-0.6

Global Equities

United States

Overview

US equity markets stalled and reversed some of their recent gains, as oil prices surged, causing concern on both the inflation and economic growth fronts.

Home Depot – Home Depot reported a 66% drop in quarterly profit, causing its share price to fall by over 8%. This follows the continued slowdown in the US housing market, along with costs related to the closing of some of its stores.

Ford – The auto industry was one of the weakest sectors last week, as the tough year for autos continued. Ford announced that it would take longer than expected to break even, as the company has experienced a notable consumer shift away from trucks. Its share price fell by over 15% on the week.

Europe

Overview

Rising oil prices stoked further inflation concerns for the eurozone, leading to indices in the region finishing in the red.

Air France - KLM – The airline announced a net quarterly loss and warned that rising oil prices would impact on future profits. This caused its share price to finish the week nearly 18% lower.

UBS – In an effort to repair its balance sheet, which has been hit hard by subprime writedowns, the Swiss bank formally launched its rights issue worth $15bn, at a significant discount to its share price. Its value fell by close to 7% on the week.

Ireland

Overview

The Irish market followed markets worldwide lower, after a poor week for banking and construction stocks.

Bank of Ireland – Full-year results for the bank were in line with investors' forecasts. Despite the lack of any worrying figures, the stock fell on disappointing guidance, finishing the week almost 7% lower.

DCC – DCC announced strong full-year returns which were higher than expected, while also issuing a positive earnings growth outlook. Its share price finished the week almost 5% higher.

Asia Pacific

Overview

Asian markets followed the rest of the world into negative territory, as fears grew that slowing U.S. consumer demand will hurt Asia's export-oriented economies, causing concern over second-quarter earnings.

Bonds

Strong surveys from Germany outweighed falling investor confidence, which led to investors discounting the possibility of any near-term rate-cuts by the European Central Bank. These surveys, along with rising oil prices, led to increased fears of inflation remaining well above the ECB's desired 2% level. The Merrill Lynch >5 year government bond index fell 0.6% 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.

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