

Weekly Investment News

9th June 2008



EAGLE STAR

A member of the  Zurich Group

Global Overview

Markets fall

Equity markets fell heavily towards the end of the week, as concerns over economic growth grew, following weak economic data and a surge in oil prices.

Interest rate decisions

As expected, the Bank of England and the European Central Bank held benchmark interest rates at 5% and 4% respectively. Comments from both banks caused concern though, as the BoE governor believes inflation may exceed 3% for several quarters, while the ECB stated it may need to raise rates, as soon as the next meeting, to try to bring inflation back under control. This comes despite slowing economies in the eurozone and the UK.

US employment data

After another 49,000 jobs were cut from US payrolls in May, the unemployment rate rose by its most in 22 years, to stand at 5.5%. This was the fifth straight month of job losses, causing recession fears to remain amongst investors.

Oil prices surge

Oil prices surged to all-time highs after rising by a massive \$11 over the week, to finish at over \$138 per barrel. This rise was due to heightened geopolitical tensions between Israel and Iran, along with poor economic data which caused the dollar to weaken against the euro and other major currencies.

Index		Year to Date Return 31.12.07 to 06.06.08		1 Week Return 30.05.08 to 06.06.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-7.3	-14.1	-2.8	-4.0
US	NASDAQ	-6.7	-13.5	-1.9	-3.1
Europe	FT/S&P Europe Ex. U.K.	-14.2	-14.2	-3.6	-3.6
Ireland	ISEQ	-16.3	-16.3	-4.9	-4.9
UK	FTSE 100	-8.5	-15.8	-2.4	-4.1
Japan	Topix	-3.2	-4.9	1.4	0.3
Hong Kong	Hang Seng	-12.3	-18.8	-0.5	-1.8
Australia	S&P/ASX 200	-11.8	-10.4	-1.1	-1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.2	0.2	0.3	0.3

Global Equities



United States

Overview

US markets slumped by 3% on Friday to finish the week in negative territory, after an unexpected jump in the employment rate.

Bond insurers – A rating downgrade by S&P, from AAA to AA, of bond insurers, MBIA and Ambac Financial, sparked a major sell-off of shares of both companies. Ambac fell by over 23% on the week, while MBIA dropped almost 22%.

Verizon Wireless – The mobile technology group agreed to buy rival company Alltel for \$28.1 billion last week. The combined company would become the largest mobile services company in the US, overtaking AT&T. Verizon's share price was unchanged over the week.

General Motors – General Motors plans to close four truck plants in response to rising petrol prices and weak consumer spending. Despite the efforts to cut costs, the stock slid a further 5% on the week.



Europe

Overview

European markets finished the week lower, after comments from ECB president Jean-Claude Trichet hinted that interest rates may increase as soon as the next meeting.

TeliaSonera – After the Swedish company rejected an indicative bid from France Telecom, its share price rose in anticipation that France Telecom would come back with an improved offer. TeliaSonera finished the week over 4% higher.

Bradford & Bingley – Early last week, the UK bank announced it had tumbled to a loss for the first four months of the year and saw continued pressure on margins, as funding costs remain high and the risk of customers defaulting on loans is rising faster than expected. This caused the banking sector to come under further pressure and Bradford & Bingley's share price fell by almost 21% over the week, as it was forced to restructure its rights issue.



Ireland

Overview

The Irish market fell almost 5% over the week. Banking stocks were the weakest, after Citigroup cut its stock recommendation, to 'sell', on both Bank of Ireland and Anglo Irish bank.

Ryanair – Low-cost airline, Ryanair, finished the week almost 12% higher, after publication of its full-year earnings, which showed record profits that beat expectations. However, chief executive Michael O'Leary warned that it might only break-even in 2009 in the event that oil stays at \$130 per barrel.



Asia Pacific

Overview

It was a mixed week for Asian markets as they closed prior to Friday's major surge in oil prices. Japan was the stand-out performer as energy and export-related stocks had another strong week.

Bonds

Eurozone bonds gained over the week. However, gains were pared following the ECB's interest rate meeting, at which there was talk of raising interest rates in order to bring inflation back under control. The Merrill Lynch >5 year government bond index rose 0.3% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth and the leap in oil prices this year raises the growth risks considerably. Much of the US data this year has 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.
- The ECB's rhetoric has become more hawkish amid higher-than-forecast inflation data. Despite clear evidence of economic growth momentum having slowed considerably, the ECB now seems quite close to raising rates further, a turnaround from the cuts which investors bet on earlier in the year.
- Government bonds are now more reasonably valued and should continue to get safe-haven support during any further equity market volatility.
- Worries about the banking system have eased significantly and this allowed equity markets to rebound strongly from the March lows. 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. A volatile period of range trading may be the pattern for the next few weeks, especially in the midst of further ECB interest rate tightening.
- At the moment, the funds are underweight equities and slightly long bonds versus the manager average. Within equity sectors, oil & gas and technology are overweight, while 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.

Eagle Star Life Assurance Company of Ireland Limited

Eagle Star House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.eaglestarlife.ie

Eagle Star Life Assurance Company of Ireland Limited is regulated by the Financial Regulator. Intended for distribution within the Republic of Ireland.