Eagle Star Investments
Weekly News
23rd June 2008

Global Overview

Markets fall

Fears that many economies may need to hike interest rates to try to curb inflation, and concerns over the outlook for the banking sector, caused equity markets to fall sharply over the week.

UK retail data

Good summer weather helped drive UK retail sales up at the sharpest pace in more than two decades. This increase was met with caution though, as it boosts expectations the Bank of England will raise interest rates.

US economic data

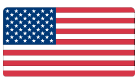
The number of US workers filing for jobless benefits fell by 5,000 last week. However, as the moving average moved higher for the second week in a row, it confirms workers' fears that it is growing harder to get a job in the slowing economy. US producer prices recorded a larger-than-forecast 1.4% increase last month. Despite this, core prices moderated and only increased 0.2%.

Commodity prices

It was another volatile week for oil, as fears grew that the increased output from Saudi Arabia would not be enough to help prices retreat from record levels. The price per barrel hit almost $140 at the start of the week, before falling back to just under $136, helped partly by a stronger dollar.

	Index	Year to Date Return 31.12.07 to 20.06.08		1 Week Return 13.06.08 to 20.06.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-10.2	-16.2	-3.1	-4.7
US	NASDAQ	-9.3	-15.3	-2.0	-3.5
Europe	FT/S&P Europe Ex. U.K.	-18.7	-18.7	-3.5	-3.5
Ireland	ISEQ	-21.2	-21.2	-2.8	-2.8
UK	FTSE 100	-13.0	-19.1	-3.1	-3.4
Japan	Topix	-8.1	-10.7	-1.1	-2.1
Hong Kong	Hang Seng	-18.2	-23.7	0.7	-0.8
Australia	S&P/ASX 200	-16.6	-15.2	-1.7	-1.6
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.1	-1.1	0.8	0.8

Global Equities



United States

Overview

US markets ended the week lower, after poor earnings results, company downgrades and further oil price volatility.

Bond insurers – Moody's rating agency cut the stock rating of bond insurers, MBIA and Ambac Financial, from AAA, amid concerns over their ability to raise new capital. This followed S&P's move of two weeks ago, and contributed to another sell-off of shares of both companies. Ambac & MBIA finished the week almost 5% lower.

Morgan Stanley – The investment bank announced a 57% drop in Q2 profits, as it continues to be adversely affected by the credit crisis and the housing slump. Concerns over the bank's ability to generate future profit growth resulted in its shares falling almost 6% over the week.

Europe

Overview

Fears over further credit writedowns for European banks and the continued high level of oil prices contributed to European equity markets falling last week.

Banking stocks – Banking stocks finished the week in negative territory, following a number of broker reports, which predicted further credit-related writedowns for some of Europe's largest banks. UBS, Credit Suisse and Deutsche Bank were all singled out as facing further problems.

Stora Enso – The Finnish paper company dropped 14% on the week, following a profit warning on the back of rising raw material costs.

Ireland

Overview

The Irish market fell almost 3% on the week, with concerns over the capital requirements of Irish banks causing their shares to drag the market lower. AIB and Bank of Ireland fell by 10% & 9% respectively.

Elan – The pharmaceutical company hit a four-year high, after rising by over 23% last week. This followed the release of Phase II data on Elan's Alzheimer's drug, Bapineuzumab, which gave some encouraging indications of its efficiency in treating Alzheimers in the future.

Asia Pacific

Overview

Asian markets finished the week lower, as inflation fears remain and concern over slower demand from the US hurt stocks.

China – The Chinese market fell after a move by the government to raise energy prices caused concern that this would trigger higher inflation. Stocks in the region are now near 15-month lows and investors are hoping the government will introduce further measures to support the stock market.

Bonds

As equities fell, global bond markets gained on their safe-haven status. However, gains were pared following strong price data in the US, eurozone and the UK. The Merrill Lynch >5 year government bond index rose 0.8% on the week.

Global Outlook

- The central case for 2008 is for further moderation in global economic growth, with soaring oil prices adding downside risks to this picture. Already much of the US data has been 'recession-like' and growth concerns will persist there. Asian (ex-Japan) economies are likely to perform reasonably well, although a slower global economy will impact. Japan's lack of exposure to the credit crunch has been a positive.
- Current US interest rates of 2% are expected to be the low point for this cycle, with rates seen rising in the second half of this year. The Fed normally doesn't raise rates when the unemployment rate is rising - as it is now. But inflation concerns are also on the Fed's radar and this may alter the historic pattern.
- Despite clear evidence of economic growth momentum, the ECB's rhetoric has become more hawkish amid higher-than-forecast inflation data. It now seems quite close to raising rates further, a turnaround from the cuts which investors bet on earlier in the year.
- After sharp price falls, following higher-than-expected inflation, government bonds are now more reasonably valued, and may also 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 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, financials and some of the industrial and consumer areas are underweight. Geographically the funds have an underweight position in Ireland, Europe and the Pacific Basin, and are more neutral in the US, Japan and the UK.

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