Eagle Star Investments

Weekly News

21st July 2008

Global Overview

Markets get a boost

Most equity markets finally snapped a six-week losing streak, after better-than-expected earnings results from financial stocks and a decline in the oil price.

UK interest rates

The Bank of England left interest rates on hold at 5% at their most recent meeting. However, concern for the economy heightened after the inflation rate for June was confirmed at 3.8%, almost 2% above the Bank's target. Talk of future rate hikes followed this data.

US economic data

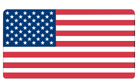
For another week running there was positive job data, as jobless claims rose, but well below what economists had expected. Worries for the economy persist though, as US consumer prices in June rose by the biggest amount since 1982, as energy and food prices continue to weigh on the economy.

Oil prices

Concerns about weaker demand due to a slowing global economy and a rise in the supplies of crude oil, petrol and heating oil, caused the price of oil to decline significantly last week. It finished at $129 per-barrel, 11% lower on the week.

	Index	Year to Date Return 31.12.07 to 18.07.08		1 Week Return 11.07.08 to 18.07.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-14.1	-21.0	1.7	2.0
US	NASDAQ	-13.9	-20.8	2.0	2.2
Europe	FT/S&P Europe Ex. U.K.	-23.0	-23.0	3.8	3.8
Ireland	ISEQ	-29.4	-29.4	10.9	10.9
UK	FTSE 100	-16.7	-22.8	2.2	3.0
Japan	Topix	-15.1	-18.2	-2.6	-2.8
Hong Kong	Hang Seng	-21.4	-27.6	-1.4	-1.0
Australia	S&P/ASX 200	-23.7	-22.1	-2.8	-2.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.1	-1.1	-1.2	-1.2

Global Equities



United States

Overview

Good earnings results and a falling oil price helped US markets finish the week in positive territory, raising investors hopes that companies can weather the economic slowdown.

Financials – Sentiment towards financial stocks dramatically improved after better-than-forecast earnings from JP Morgan, Wells Fargo and Citigroup. This helped spark a financial-based rally worldwide.

Google – There was concern amongst investors that the tech giant may be suffering from a weakening US economy, after its Q2 income fell short of expectations. The stock was down 10% on the week.

Mortgage sector – Despite falling further early in the week, government-backed mortgage agencies, Fannie Mae and Freddie Mac, finished the week higher, after the US government's announcement of rescue plans for the troubled companies.

Europe

Overview

Earnings results from the US, and a falling oil price, helped sentiment improve on European equity markets, driving them to strong returns over the week.

Novartis – Shares in the pharmaceutical company gained following Q2 earnings that beat market expectations, helped by a weak US dollar and cost-cutting efforts. Following some profit-taking, its shares finished the week 3% higher.

Mobile technology – Finnish mobile phone maker, Nokia, gave the mobile tech sector a much-needed boost, after reporting better-than-expected quarterly sales volumes and announcing that the handset market would increase by at least 10% in 2008. Shares in Ericsson and Alcatel-Lucent also gained following this.

Ireland

Overview

A worldwide rally in banking stocks helped the Irish market gain almost 11% last week. Irish banks were some of the strongest gainers in Europe on the week.

Banking stocks – After many negative weeks, Irish banking stocks soared as sentiment turned in the US following positive earnings figures. Irish Life & Permanent rose almost 32%, Anglo Irish Bank by 22% and Bank of Ireland by 20%.

Asia Pacific

Overview

Asian markets started the week on a negative note amid concerns about the regional banks' exposure to Freddie Mac and Fannie Mae and worries about economic growth in the region. Losses were pared as financials rallied during the week. However, most markets still finished in the red.

Bonds

Eurozone bonds fell last week as equity markets rallied and inflation was confirmed at a worrying, 4%. 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, with soaring oil prices adding downside risks to this picture. Already much of 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 by 0.25% by year end. 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 a clear loss of growth momentum in the eurozone economy, the ECB is very concerned about inflation data. While it says that it has no bias on rates - following its recent 0.25% rate increase to 4.25% - investors are still anticipating at least a further 0.25% increase by year end.
- 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.
- Equity markets have eroded the very strong gains recorded after the Bear Stearns rescue in March. Further volatility is likely as investors assess the impact of the soaring oil prices, the credit crunch and the 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 while investors digest the recent ECB rate hike and the possibility of any further moves.
- At the moment, the funds are underweight equities and slightly long bonds versus the manager average. Within equity sectors, financials and basic materials are underweight, while telecoms are overweight. Geographically the funds have an underweight position in Ireland and the Pacific Basin, and are more neutral in the US, UK, Europe and Japan.

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