Eagle Star Investments

Weekly News

9th September 2008

Global Overview

Most equity markets finish lower

Global equity markets finished the week in negative territory amid mounting concerns about the prospects for the global economy and the health of the financial sector.

US economic data

The US unemployment rate jumped to a five-year high of 6.1% in August, from 5.7% in July, as employers slashed jobs, providing proof of the damage being caused by the housing, credit and financial crises. Elsewhere, at the weekend, the US government launched the country's biggest federal bail-out of Fannie Mae and Freddie Mac in a bid to support the US housing market. This led to a surge in world stock markets when markets reopened on Monday.

UK economic data

Last Thursday, the Bank of England's Monetary Policy Committee held interest rates steady at 5% as widely expected, amid further signs of weakness in the housing market.

Eurozone economic data

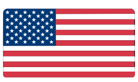
The European Central Bank voted to leave interest rates unchanged at 4.25% but revised up its inflation forecast for both 2008 and 2009 on the back of higher oil prices. ECB President Jean-Claude Trichet also announced that the ECB will tighten its lending rules to prevent exploitation by financial institutions affected by the credit crisis.

Commodities

The oil price fell to a five-month low last week, trading at just over $106 per barrel, hit by weaker demand due to economic slowdown. However, prices are expected to bounce back due to concern about the strength of Hurricane Ike which is heading towards the US oil hub in the Gulf of Mexico.

Index		Year to Date Return 31.12.07 to 05.09.08		1 Week Return 29.08.08 to 05.09.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-15.4	-13.5	-3.2	-0.6
US	NASDAQ	-15.0	-13.0	-4.7	-2.2
Europe	FT/S&P Europe Ex. U.K.	-25.0	-25.0	-5.0	-5.0
Ireland	ISEQ	-38.2	-38.2	-4.7	-4.7
UK	FTSE 100	-18.8	-26.1	-7.0	-7.3
Japan	Topix	-20.7	-15.3	-6.7	-2.7
Hong Kong	Hang Seng	-28.3	-26.8	-6.2	-3.8
Australia	S&P/ASX 200	-23.1	-27.2	-5.0	-7.7
Bonds	Merrill Lynch Euro over 5 year Govt.	3.6	3.6	1.0	1.0

Global Equities



United States

Overview

US markets finished the week lower due to the continuing slew of weak economic releases, mostly centred on the labour market. Non-farm payrolls disappointed as US employers cut 84,000 jobs in August compared with expectations of 75,000.

Terex – The industrial company surprised markets by lowering its full-year sales and profit forecasts. The warning sent the Westport, Connecticut-based company's shares plunging as much as 20%. The rising price of oil, steel and other commodities used to make the equipment were cited as factors adding pressure to the equipment makers' margins.

Europe

Overview

European markets declined sharply last week as concerns about the banking sector continued unabated.

Commerzbank – Commerzbank's share price fell last week in a downbeat reaction from the German bank's investors to its €9.8bn acquisition of domestic rival Dresdner Bank. The deal, combining Germany's second and third largest banks, makes it a clear rival to Deutsche Bank.

Electricite de France – The French utility company is moving closer to securing a deal to purchase British Energy, the nuclear generator, after talks with some of the UK company's biggest investors had a better-than-expected reaction.

Ireland

Overview

The Irish market followed European markets, finishing the week over 4% lower.

Banking stocks – AIB fell 10.3% and Anglo Irish Bank was down 12.7%, whilst Irish Life & Permanent bucked the trend, rising by 2.7%.

Asia Pacific

Overview

Coca-Cola has offered $2.4bn to buy China Huiyuan Juice Group, in what would be the largest takeover by a foreign company in China. This acquisition will help the US-based company expand in the world's most populous market. China's PMI Index improved slightly but still suggests a contraction in the economy.

Bonds

Bond prices made modest gains last week as weaker economic data came from both Europe and the US and investor concerns regarding economic recession intensified. The Merrill Lynch >5 year government bond index rose 1% on the week.

Global Outlook

- The global growth rate has moderated from a very high level, driven lower by the cumulative effect of high oil prices, other commodities and the credit crunch. Much of the recent US data has been 'recession-like', while the eurozone economy has slowed abruptly in recent months. Asian (ex-Japan) economies have performed reasonably well, although a slower global economy is impacting. Japan's lack of exposure to the credit crunch has been a positive, but recent data has deteriorated. Oil prices have fallen over 28% from their peak and this has helped lower inflation expectations and taken some of the pressure off interest rates more recently.
- US interest rates are currently 2% and are expected to be fractionally higher by year end. The Fed normally doesn't raise rates when the unemployment rate is rising - as it is now - but inflation concerns have been high on the Fed's agenda and this may alter the historic pattern. However, falling commodity prices should help to ease these fears.
- The ECB has been surprised by the recent slowdown in the eurozone economy and this may temper its pre-occupation with inflation. Following its last 0.25% rate increase to 4.25%, the ECB says it has no bias on rates - one way or another - from here and investors are no longer anticipating further rate hikes.
- After sharp price falls in the second quarter, following higher-than-expected inflation, government bonds became more reasonably valued; weaker economic data and the recent fall in oil prices have helped support the market recently.
- Equity markets have rallied 10% from their recent low, helped by lower rate expectations, falling oil prices and the bail-out of Fannie Mae and Freddie Mac. While the headwinds for equities are strong - the impact of the prior oil price increases, the credit crunch and the cyclical slowing of the global economy - further significant falls in oil prices and diminished chances of future rate hikes would be a positive.
- Despite the recent sharp rally in the US dollar versus the euro, the dollar retains much of its valuation support versus the euro. A volatile period of range trading is the most likely pattern as investors assess the willingness of the relevant central banks to alter interest rates over the coming months.
- 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 other sectors are closer to neutral. Geographically, the funds have an underweight position in Ireland, Japan and the Pacific Basin, an overweight in the US and are more neutral in the UK and Europe.

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