

Eagle Star Investments

Weekly News

6th October 2008

Global Overview

Global equity market volatility continues

Equity markets continued to trade extremely nervously as fears emerged that the approval of the 'revised' \$700bn rescue package could be insufficient to quell economic uncertainty.

Banking concerns

After a week of tense negotiations on Capitol Hill and turmoil in global financial markets, US lawmakers finally approved the financial rescue package. Markets are drawing some confidence from mounting expectations that the US, UK and eurozone central banks might soon cut interest rates in an attempt to stem the financial crisis. The ongoing deluge of grim figures suggests that the credit crisis is driving all economies into a severe downturn.

Eurozone economic data

The ECB Governing Council discussed cutting interest rates at their meeting last week, before deciding 'unanimously' to hold them steady at 4.25%. However, ECB President Jean-Claude Trichet has opened the door for a possible rate cut next month, or even earlier.

Commodities

Amid concerns over the delayed response of European policy-makers to the financial crisis, the dollar currency continued to strengthen. The \$/€ finished the week at \$1.38. Commodity prices retreated on global growth concerns with oil prices finishing the week at \$91 a barrel compared to \$106, a week earlier. Gold slumped 6% to \$840 per ounce.

Index	Year to Date Return 31.12.07 to 03.10.08		1 Week Return 26.09.08 to 03.10.08		
	Local Currency %	Euro %	Local Currency %	Euro %	
US	S&P 500	-25.1	-20.9	-9.4	-4.1
US	NASDAQ	-26.6	-22.4	-10.8	-5.6
Europe	FT/S&P Europe Ex. U.K.	-28.6	-28.6	-2.3	-2.3
Ireland	ISEQ	-43.1	-43.1	4.2	4.2
UK	FTSE 100	-22.9	-27.1	-2.1	-0.1
Japan	Topix	-29.0	-20.9	-8.7	-3.3
Hong Kong	Hang Seng	-36.4	-32.6	-5.4	0.2
Australia	S&P/ASX 200	-25.9	-30.7	-4.3	-5.4
Bonds	Merrill Lynch Euro over 5 year Govt.	4.4	4.4	2.4	2.4

Global Equities



United States

Overview

Equity markets continued to decline steeply throughout the week as a jump in borrowing costs and bleak economic data reflected a worsening economy, spurring concern that the government's \$700bn bailout plan would be insufficient. US employment suffered its sharpest fall since March 2003, as non-farm payrolls for September fell 159,000, whilst factory orders showed a steeper-than-expected drop in August.

Wachovia – Citigroup announced last Monday that it had agreed to buy Wachovia's banking assets for \$2.2bn in a deal backed by the US government. However, in a surprise move on Friday, Wells Fargo upstaged Citigroup's bid, saying it had signed an agreement to buy Wachovia, in its entirety, for about \$15bn.



Europe

Overview

European markets followed the rest of the world lower as concerns persist for the banking sector, along with weakening economic data.

Hypo Real Estate – The German government, together with banks and insurance companies, agreed at the weekend on a €50bn deal to bail out the country's stricken commercial lender, Hypo Real Estate. The rescue came after a weekend of frantic negotiations after an earlier rescue plan for the embattled lender fell apart, when a consortium of banks pulled out of the deal.

Fortis – BNP Paribas announced control of the Belgian and Luxembourg businesses of troubled financial group, Fortis, in a complex rescue that will make Belgium, the French bank's biggest shareholder. Under a share swap, BNP Paribas will get 75% of Fortis Bank Belgium and all the group's Belgian insurance operations.

UBS – The Swiss bank has signalled that it will cut a further 2,000 jobs in its real estate, securitisation and proprietary trading unit, in an effort to reduce costs.



Ireland

Overview

Despite an extremely volatile week, the Irish market managed to finish the week in positive territory. The ISEQ suffered its worst one-day fall on Monday 29th, tumbling by 13%, as investors feared further bank failures. In an attempt to maintain stability within the domestic financial system, the Irish government announced its decision to put in place, with immediate effect, a two-year guarantee arrangement to safeguard all deposits, senior and sub-ordinated debt at the six main Irish banks.



Asia Pacific

Overview

Japan's Nikkei fell to a three-year closing low in what was its worst week in more than a year as concerns for the financial sector continued. Major car companies reported a 26% drop in overall US sales for September.

Bonds

Bond prices soared over the week as investors flocked to their safe haven. The Merrill Lynch >5 year government bond index rose 2.4% on the week.

Global Outlook

- Macro economic risks continue to rise due to the effect of previously high oil prices and the intensification of the credit crisis. US data has been 'recession-like', while the eurozone economy has slowed abruptly in recent months. Meanwhile, Asian (ex-Japan) economies have not decoupled from Europe and the US as some commentators had earlier hoped and Japan's export dependence is a clear negative for its economy. Weaker growth and the 35% fall from the high in oil prices have helped lower inflation expectations and taken the pressure off interest rates.
- US interest rate expectations have gyrated wildly in the past few weeks; currently investors expect the Fed to lower rates by a further 0.5% before year end. The ECB has been surprised by the recent slew of very weak economic data in the eurozone economy and finally changed its rhetoric last week. Investors now expect that the ECB will be forced to lower rates by 1% over the next 6 months. The possibility of a near-term co-ordinated rate cut from the major central banks is rising considerably.
- At the moment, a rush to the safety of government bonds has offset the fears of a resurgence of bond issuance that will stem from slowing economies and government bail-outs. Meanwhile, corporate bonds continue to be shunned by investors as fears rise over credit defaults.
- While it was hoped that the US rescue package would remove the 'Armageddon' risks for the US financial system and global equity markets, the initial market reaction to its passing has been poor, with numerous banking 'events' in Europe depressing investor sentiment globally. Investor sentiment is now so low that, ironically, equity markets may be getting close to a 'revulsion' low as they have done at many times in such situations. However the headwinds are quite strong, uncertainty is extremely high and markets will continue to be very volatile.
- The US dollar surge continues as investors buy dollars to repay borrowings they had used to finance earlier asset purchases. Given the speed and size of the recent move, some reversal of dollar strength is possible but it still retains valuation support versus European currencies.
- The funds are currently neutral in equities and still slightly long bonds versus the manager average. Within equity sectors healthcare is an overweight and industrials are underweight. Geographically, the funds have an underweight position in Ireland, the Pacific Basin and Japan, and are overweight in the US, Europe and the UK.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star/Zurich. 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.zurich.ie

Eagle Star Life Assurance Company of Ireland Limited is regulated by the Financial Regulator.

Intended for distribution within the Republic of Ireland.



ZURICH[®]