

Eagle Star Investments

Weekly News

24th November 2008

Global Overview

Markets remain under pressure

With worries over the depth of the recession, liquidity concerns in the auto industry and the uncertain future of Citigroup, equity markets failed to find the impetus to go higher and retreated over the week.

Grim economic data

Last week saw further weak economic data throughout the world, leading to concerns that the world economy is heading for a prolonged recession. This data included poor housing starts and rising jobless claims in the US, weak manufacturing data in Europe and worrying employment data in China as the export sector comes under pressure and factory closures rise.

Weekend developments

Late last week, it was rumoured that Barack Obama was going to appoint Tim Geithner as Treasury Secretary when he announces the leaders of his economic team this week. This gave markets some reasons for cheer late on Friday, with the US soaring in the final hours of trading. Further to this, Barack Obama laid out plans for a two-year economic stimulus plan involving the creation of 2.5 million jobs. Finally, the U.S. government has agreed to guarantee over \$300bn of Citigroup's troubled assets, with the U.S. Treasury investing \$20 billion in the bank.

Commodities

Fears over the extent of the economic slowdown drove oil prices under the \$50 per barrel level for the first time in over three years. Oil finished the week just under the \$50 mark, leading investors to speculate that OPEC may cut output as early as this week, to help lift prices.

Index		Year to Date Return 31.12.07 to 21.11.08		1 Week Return 14.11.08 to 21.11.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-45.5	-36.6	-8.4	-7.0
US	NASDAQ	-47.8	-39.3	-8.7	-7.4
Europe	FT/S&P Europe Ex. U.K.	-50.2	-50.2	-12.1	-12.1
Ireland	ISEQ	-66.5	-66.5	-13.2	-13.2
UK	FTSE 100	-41.4	-49.3	-10.7	-9.6
Japan	Topix	-45.6	-25.8	-5.2	-2.5
Hong Kong	Hang Seng	-54.5	-46.7	-6.5	-5.2
Australia	S&P/ASX 200	-46.1	-55.0	-8.9	-11.3
Bonds	Merrill Lynch Euro over 5 year Govt.	7.9	7.9	1.9	1.9

Global Equities



United States

Overview

Negative economic data and worries surrounding Citigroup led markets lower over the week. News of the potential appointment of Tim Geithner as Treasury Secretary caused a surge in equities late on Friday.

Citigroup – The banking giant had a turbulent week as investors speculated about the possible merger or break-up of the company. As investor confidence sank, its stock fell by 60%, which is a 10-year low. As a result, in order to limit the threat to the financial system, it has received government backing, with a \$20bn cash infusion plus a \$300bn loan guarantee.

Auto sector – Both Ford and General Motors remained under pressure last week after Democratic leaders in Congress refused to hand over cash to help the ailing carmakers. Fears of bankruptcy remain, however, Congress is willing to revisit the request in December, if the need warrants it.



Europe

Overview

European markets were led lower by financial and commodity stocks. Fear is currently dominating sentiment as investors see the likes of Citigroup under severe pressure in the US, adding to the recessionary fears already surrounding Europe and the UK.

Commodity stocks – As oil hit multi-year lows and economic data points towards a protracted period of slowdown, energy and metal companies came under further pressure. StatoilHydro, Total and ArcelorMittal were among the big names that retreated during the week, as investors fear weaker profits going forward, as oil is now over 66% off its peak, reached at the start of July.



Ireland

Overview

The ISEQ remains one of the weakest indices in Europe with a fall of 66% in 2008 alone. Despite an independent report confirming that the Irish banks have over the required level of capital, and will for the foreseeable future, the sector fell heavily as rumours are rife that recapitalisation may be needed.

Banking sector – Bank of Ireland confirmed on Friday that it has received unsolicited approaches from a number of parties wishing to invest in the group. Irish Life & Permanent confirmed it has been in discussions with the EBS building society regarding the two companies working together in the future. The market is still unclear as to what part the Irish government may play in the recapitalisation of the banks and it may be a number of weeks before any clarity is available to investors.



Asia Pacific

Overview

Asian markets suffered further losses as the economic downturn hits the export-reliant economies. Markets are close to their five-year lows, despite the positive effect that followed the unveiling of the Chinese economic stimulus plan to boost domestic demand.

Bonds

Eurozone bonds gained over the week on the expectation that the ECB will be forced to continue cutting through 2009. This follows record lows in the manufacturing and service sectors and a further fall in inflation. The Merrill Lynch over 5 year government bond index rose 1.9% on the week.

Global Outlook

- Policymakers continue to address the most dangerous situation in the global economy for 70 years. It is now a given that US and European growth rates will be severely curtailed in the next year or so and that a global recession will continue to be worked through during 2009. Policy action is intended to stabilise the banking system and prevent a prolonged deflationary slump.
- Many measures have been taken in an effort to revive the money markets - the lifeblood of the banking system and the real economy. These measures have been slow to work and in the meantime the banking crisis has rapidly spread into the real economy where companies, their suppliers and customers are credit-constrained. A more rapid improvement in the money markets is vital if further deterioration in economic activity is to be forestalled.
- The collapse in economic indicators in the past two months means that further sharp falls in official short-term interest rates will be seen in a host of countries over the coming weeks and months. Most likely the ECB will cut rates by 0.5%, to 2.75%, next week and rates are likely to fall well below 2% during 2009. Similarly, UK rates will be reduced to new multi-decade lows; markets see rates under 2% in coming months. Meanwhile in the US, even with rates now at 1%, investors are toying with rates falling to 0.5% by the middle of next month. With rates at these levels, the Fed is likely to be studying more unconventional interest rate policies - such as trying to actively lower longer-term interest rates.
- With some markets priced for the deepest slump since the Great Depression, government bonds have received strong safe-haven flows. These may unwind periodically as governments step up their borrowings substantially and if investors' fear of equities and corporate bonds recedes somewhat. Overall, however, bonds should be supported by central bank policies and large drops in inflation rates.
- The shattering loss of confidence in corporate bond markets is also manifest in equity markets, where investors have become almost inured to the huge volatility, the seemingly random price action and large price falls. Co-ordinated policy action is intended to arrest that fear and set the stage for the return of some confidence into the banking system, the real economy and equity markets. History suggests that powerful rallies can occur in the midst of severe bear markets - such as we have experienced this year - especially when sentiment is totally shattered, as it had become in the past few weeks. Over the next couple of months, statements and appointments by the US President-elect will be closely scrutinised for policy clues. However, it is the unfreezing of the money markets and the banking system that is seen by equity investors as the acid test of whether policy action is working or not. Expect volatility and uncertainty to persist until those markets begin to return to normality.
- Currently, the funds are neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight healthcare and underweight basic materials and financials. Geographically, the funds have an underweight position in Ireland and Japan, are neutral in the Pacific Basin and US, and are overweight in the UK and in Europe.

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.