

Eagle Star Investments

Weekly News

9th March 2009

Global Overview

Equity markets retreat further

There were big losses across all equity indices last week as investors feared further nationalisations within the banking system, a downgrading of earnings forecasts and mounting job losses worldwide.

US employment data

The US unemployment rate rose to a 25-year high of 8.1% after a further 641,000 jobs were lost in February.

European Central Bank

Interest rates in the eurozone hit a record low of 1.5% after the ECB reduced rates by 0.5%. This follows a severe deterioration in economic activity in the region which has seen growth and inflation forecasts slashed.

Bank of England

With the economy deteriorating, the BoE cut the base interest rate in half, to leave it at 0.5%. It also announced that over the next three months it would buy £75bn of assets, including government bonds, in order to help expand the money supply

Oil

Signs that OPEC's cuts have begun to tighten supply and a further reduction in US crude gave the oil price some support last week. The oil price finished the week at \$45 per barrel. Despite the disappointment of a fresh stimulus package in China, gold managed to remain unchanged last week, to finish at \$940, as investors looked for a haven against the weak economic data.

Index	Year to Date Return 31.12.08 to 06.03.09		1 Week Return 27.02.09 to 06.03.09		
	Local Currency %	Euro %	Local Currency %	Euro %	
US	S&P 500	-24.3	-16.7	-7.0	-6.7
US	NASDAQ	-18.0	-9.7	-6.1	-5.8
Europe	FT/S&P Europe Ex. U.K.	-22.5	-22.5	-7.6	-7.6
Ireland	ISEQ	-16.8	-16.8	-6.0	-6.0
UK	FTSE 100	-20.4	-15.2	-7.8	-9.1
Japan	Topix	-16.0	-14.2	-4.7	-4.2
Hong Kong	Hang Seng	-17.1	-8.9	-7.0	-6.7
Australia	S&P/ASX 200	-15.5	-15.4	-6.0	-6.2
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.5	-0.5	1.2	1.2

Global Equities



United States

Overview

Most equity markets ended the week at levels not seen since the 90's, as doubts hang over large companies like General Motors, AIG, Citigroup and General Electric, while the economic data remained particularly weak

AIG – AIG reported the biggest corporate loss in history last week, and also received its third government rescue plan in as many months. Over the week, its shares declined by 17%.

General Electric – After cutting its quarterly dividend only a week ago, the bellwether stock had to issue a statement to counteract rumours that it would have to raise fresh capital after the cost of insuring against the company's finance arm defaulting spiked.



Europe

Overview

European markets fell heavily as the banking sector came under renewed pressure and economic growth forecasts were slashed.

Barclays Bank – There was fresh concerns about Barclays strength after analysts said that credit related writedowns over the next two years may be double the company's current estimates.

Resource sector – Resource stocks got a boost on Wednesday following speculation of an expansion of the Chinese stimulus package, however, most of these gains were reversed on Thursday and Friday after the Chinese measures failed to materialise.



Ireland

Overview

The construction sector weighted on the ISEQ as it lost 6% over the week, bringing it to levels not seen since 1995.

CRH – CRH announced 2008 results in line with guidance. In addition, CRH announced a €1.2bn rights issue in order to reinforce its balance sheet, and to provide headroom to acquire assets by peer forced disposals.

C&C – In a trading update for the end of February, the drinks company announced it would continue to pay a dividend, although at a lower rate than present. Investors looked favourably on the update and its share finished the week 20% higher.



Asia Pacific

Overview

Worries surrounding Asian economies and banking stocks caused Asia to follow the rest of the world lower over the week. Markets got a mid-week boost on speculation of further major stimulus measures to boost the Chinese economy, but these did not materialize as the Government feel the current package in place will be sufficient for the moment.

Bonds

Further poor economic data worldwide, including the cutting of growth forecasts for the eurozone, and falling interest rates gave bonds a boost over the week. The Merrill Lynch over 5 year Government bond index rose 0.6% last week.

Global Outlook

- While policymakers work to prevent a deflationary slump through aggressive interest rate reductions, higher government spending and extraordinary interventions in the financial markets, the current economic data remains pretty horrific. The hoped-for improvement in the forward indicators of economic activity has not yet emerged and output and employment will likely remain very weak for some months yet.
- Despite all of the effort aimed at the banking system, the flow of credit to the real economy remains very constrained. There is much debate about the creation of so-called "bad banks" or insurance schemes to take poor quality assets off banks' balance sheets and allow the resultant (more transparent and less risky) banks concentrate on mainstream lending to firms and households.
- Global short rates will remain exceptionally low for some time to come, although UK and US short rates have reached their cycle lows. The ECB is set to cut rates again to 1% in the next few weeks but that is likely to be the cycle low for its official rates. The UK will commence "quantitative easing" (buying UK government bonds) this week in a move likely to be followed at some stage by others such as the Fed and ECB. However the Fed has dithered on this front and lost valuable time since its first pronouncements on this subject in December and the ECB still only seems to be in contemplation, rather than action mode.
- "Quantitative easing" boosted the UK bond market last week and is an offset to the concerns in government bond markets regarding increased supply and ratings' downgrades. Within the eurozone there have been additional concerns about the fiscal policies of countries like Ireland and Spain and this has produced a debate about measures to reduce the cost of their debt versus more stable countries like Germany and the Netherlands. While the current level of short and long-term rates may be seen as "emergency" levels and hence not sustainable, it remains the case that the economic backdrop should be bond-supportive for a while to come.
- Equities have made new lows, albeit without the panic that accompanied last year's lows. But price action and sentiment remain very weak and optimism about new policy initiatives has diminished due to policy division and delay. Meanwhile, the corporate bond markets remain a hostile environment for companies to fund capital. Markets will remain volatile and the direction uncertain for some time to come.
- Currently, the funds are underweight equities and overweight bonds, versus the manager average. Within equity sectors the funds are overweight technology and underweight financials. Geographically, the funds have an underweight position in Ireland, Japan, the US and Europe, and are slightly overweight in the Pacific Basin 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.