Eagle Star Investments

Weekly News 14th September 2009

ZURICH

Global Overview

Equity markets gain

Last week saw equity markets register one of their best weeks since July, as economic data from China, Europe and the US surprised to the upside and boosted investor confidence.

US consumer sentiment jumps

With the economy showing continued signs of improvement and the pace of job losses slowing, consumer sentiment took a big jump last month. The consumer sentiment gauge jumped more-than-expected and is now back to its September 2008 level.

European data strengthens further

European investor confidence increased for a second consecutive month, as the eurozone economy continues to show improvement. German factory orders also advanced, for the fifth month running, while in the UK, house prices and manufacturing data gained once again last month.

China

China's economy showed further expansion in August, with industrial production, lending and retail sales all surprising to the upside. Record lending of $1.1 trillion in the first-half of the year has helped negate the effect of slumping exports.

Gold & the dollar

Gold surged to its highest price since March 2008 as the dollar weakened against most major currencies, increasing demand for the metal as a currency hedge. Gold now sits at over $1,004 a troy ounce. The dollar weakness has prompted investors to sell the dollar and buy riskier assets. The €/$ rate strengthened almost 2% over the week to finish just below 1.46.

	Index	Year to Date Return 31.12.08 to 11.09.09		1 Week Return 04.09.09 to 11.09.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	15.4	10.5	2.6	0.7
US	NASDAQ	32.0	26.3	3.1	1.2
Europe	FT/S&P Europe Ex. U.K.	20.1	20.1	3.6	3.6
Ireland	ISEQ	39.0	39.0	7.2	7.2
UK	FTSE 100	13.0	23.7	3.3	3.1
Japan	Topix	10.6	6.2	1.6	2.4
Hong Kong	Hang Seng	47.1	40.8	4.1	2.2
Australia	S&P/ASX 200	23.5	44.8	3.6	3.1
Bonds	Merrill Lynch Euro over 5 year Govt.	3.7	3.7	0.5	0.5

Global Equities

United States

Overview

Despite investor cautiousness due to the speed of the rally from the March 9th lows, US markets gained last week, as rising oil demand, broker upgrades and improving economic data boosted the outlook for corporate profits.

Retail Sales – Gap and American Eagle showed an improvement in August, when announcing that sales had fallen by less than analysts had forecast. Shares in both companies rose over the week.

Industrial shares – Industrials advanced last week after stockbroker Goldman Sachs upgraded the sector, saying that industrials tend to outperform when manufacturing growth climbs. The US manufacturing index signalled expansion in August.

Europe

Overview

European markets had another strong week as some merger and acquisition activity returned to the market.

Cadbury – The world's largest confectioner saw its shares surge by almost 37% over the week, after it rejected a $16bn takeover offer from Kraft foods. It felt the offer undervalued the group, but investors are hopeful that this may trigger rival bids.

Ireland

Overview

The Irish market rallied, with banks among the main gainers, despite news that banks will share a portion of the risk attached to NAMA.

Kerry Group – The emergence of some M&A activity in the sector helped food stocks last week. On top of this, Kerry Group got a boost from positive results from McDonald's, one of its biggest customers. Kerry's shares rose by over 12% on the week.

Asia Pacific

Overview

Asian markets had a strong week, as Chinese economic data beat economists' estimates. Investors' expectations are growing that government spending will continue to support sustainable economic growth. On the downside, though, Japan's economic growth data was worse-than-expected.

Bonds

Despite signs of economic improvement, bond markets rose as investors embraced the idea that short rates will stay low for some time to come. Strong bond auctions in the US have also boosted the appeal of bonds. The Merrill Lynch over 5 year government bond index rose by 0.5%.

Global Outlook

- Economic data has improved after being in freefall earlier this year and economists have been revising their GDP forecasts higher. The strains within the financial system have eased considerably although, outside of China, bank lending is still restricted and this remains a concern for policymakers, who remain cautious on the economic outlook. Any further trade tensions between China and the US are worth watching for their economic and market impact.
- Much of the improvement can be attributed to the scale and scope of policy initiatives that were deployed to rescue the banking system and offset the collapse in private sector demand. The ultimate success of these efforts (or their unintended consequences) remains uncertain, given the size of the global crisis that they are seeking to redress.
- Short rates continue to hover between 0% and 1% in the major economies, with central banks continuing to walk a fine line. They need to keep rates sufficiently low to ensure recovery but, at the same time, they want to exit from the current emergency policy settings as soon as conditions permit. Rate-hike expectations have been scaled back in recent weeks with 'lower-for-longer' the dominant theme among investors at the moment.
- Inflation in most of the major economies remains supportive to bond markets, and the latter have behaved reasonably well, considering the strong performance of equities. In the background, however, is the exit from emergency policy settings, which is unlikely to leave bond markets unaffected. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively but these have recently begun to edge back out somewhat.
- Global equity markets continue to move to new interim highs, although 'grinding higher' probably captures best the pace of the recent moves. China's equity market continues to exhibit bubble-like behaviour but has been less of a factor in overall market sentiment than before. It is noteworthy also that a lot of the earnings from the US and Europe, outside of financials, have been boosted by cost control which may be difficult to sustain. While seasonal concerns could be a factor in markets over the next few weeks, on balance, positive forces hold sway over equity markets at the moment.
- Currently, the funds are neutral to overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight basic materials. Geographically, the funds have an underweight position in Ireland, the US and Japan, are closer to neutral in the UK and the Pacific Basin and are overweight in Europe.

Print Ref: CSA63

Zurich Life Assurance plc
Eagle Star House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

ZURICH®