

# Eagle Star Investments

## Weekly News

18th August 2008

### Global Overview

#### Mixed week for markets

It was a mixed week for equity markets, as commodity prices retreated and the dollar strengthened, but fears over economic growth outside the US intensified due to poor economic data.

#### Eurozone GDP figures

The eurozone economy recorded its first ever contraction in Q2, after figures released showed negative growth of 0.2% over the quarter. This follows weak manufacturing and slowing consumer spending in the region's largest economies. It is feared that growth in Q3 may also struggle and result in a technical recession – two periods of negative GDP growth.

#### UK inflation data

UK inflation hit a 15-year high of 4.4% in July, more than double the Bank of England's desired rate of 2%. In a statement released from the BoE, its forecast is that inflation will return to the target rate in the next two years, if interest rates stay at 5%. But it also warned that risks to the forecasted rate are on the upside.

#### Commodities

The appeal of commodities waned last week, as the dollar strengthened against most major currencies and fears over the rate of the economic slowdown worldwide grew. This resulted in gold, silver and platinum slumping 9%, 16% and 12% respectively. The €/£ rate finished the week at 1.47 - a fall of 2.5% - and the dollar as a whole gained 1.75% against major currencies.

Index	Year to Date Return 31.12.07 to 15.08.08		1 Week Return 08.08.08 to 15.08.08		
	Local Currency %	Euro %	Local Currency %	Euro %	
US	S&P 500	-11.6	-12.2	0.2	2.7
US	NASDAQ	-7.5	-8.1	1.6	4.1
Europe	FT/S&P Europe Ex. U.K.	-21.2	-21.2	-0.5	-0.5
Ireland	ISEQ	-33.6	-33.6	2.1	2.1
UK	FTSE 100	-15.5	-21.2	-0.6	-1.2
Japan	Topix	-15.5	-15.0	-1.0	1.3
Hong Kong	Hang Seng	-23.9	-24.6	-3.3	-0.9
Australia	S&P/ASX 200	-21.4	-22.8	-0.1	-0.1
Bonds	Merrill Lynch Euro over 5 year Govt.	2.6	2.6	0.8	0.8

### Global Equities



#### United States

##### Overview

Better-than-expected manufacturing data, along with a stronger dollar, offset renewed fears for the banking sector and helped US markets finish the week in positive territory.

**Financials** – Further credit related writedowns and the trimming of analysts earnings estimates for 2008 and 2009, hit several banking and brokerage stocks over the week. Goldman Sachs, JP Morgan finished the week 7% lower, while Bank of America were down 5%. JP Morgan also announced further writedowns of \$1.5bn this quarter so far.

**Bond insurers** – Shares in troubled bond insurers, Ambac and MBIA, jumped after Standard & Poor's ended its rating review of both companies, stating that the companies have taken positive steps to shore the capital in their businesses. Over the week, MBIA rose over 30%, while Ambac gained by 31%.



## Europe

### Overview

Weak GDP data for the region outweighed a fall in commodities prices, causing European equity markets to finish the week marginally lower. It is hoped that falling commodity prices will help inflation retreat from record highs.

**UBS** – The Swiss bank, the hardest hit bank in Europe by the credit crunch, fell another 4% last week after it announced a further €3.3bn writedown on the value of its assets over the last quarter. This is the bank's fourth quarterly loss in a row.

**H&M** – There was further evidence of a change in consumer spending habits as low-cost retailer, H&M, announced a 3% increase in same-store sales in July.



## Ireland

### Overview

The ISEQ rose by over 2% last week, with one of its largest stocks, Elan, surging over 27% due to the potential sale of its drug technology unit.

**Anglo Irish Bank** – The banking stock finished the week slightly lower as financials around the world struggled, however, it pared some of its losses after its interim management statement was more upbeat than expected. It said that it would meet market expectations for this year and it remained positive that it would continue to be "highly profitable" in 2009.



## Asia Pacific

### Overview

Most Asian markets finished the week in the red as robust inflation data across the region continues to worry investors. GDP data released for Q2 in Japan, showed that the world's second biggest economy shrank by 0.6% as exports fell and consumers spent less.

**Japan** – Japanese real estate and banking shares fell on the week after Urban Corp, a property developer, filed for bankruptcy with almost \$2.4bn in debt.

## Bonds

Eurozone bonds gained last week after economic growth in the region showed a contraction in Q2. This reduced fears of further interest rate hikes, while some investors have raised bets on cuts over the coming months. The Merrill Lynch >5 year government bond index rose 0.8% on the week.

## Global Outlook

- The global growth rate is moderating from a very high level, with the cumulative effect of high oil prices adding downside risks to this picture. Much of the US data has been 'recession-like' while the eurozone economy has slowed abruptly in recent months. Asian (ex-Japan) economies are performing reasonably well, although a slower global economy will impact. Japan's lack of exposure to the credit crunch has been a positive. Oil prices have fallen over 20% from their peak and this has helped lower inflation expectations and taken some of the pressure off interest rates.
- 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.
- 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. Bonds also continue to get safe-haven support during equity market volatility.
- Equity markets have rallied 5% from their recent low, helped by lower rate expectations and falling oil prices. 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 price 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 European currencies. A volatile period of range trading is the most likely pattern over the next while 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 and the Pacific Basin, an overweight in the US and are more neutral in the UK, Europe and Japan.

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.

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