

Eagle Star Investments

Weekly News

3rd November 2008

Global Overview

Equity markets rebound higher

Despite mounting concerns about the global economic outlook, optimism that central banks worldwide will continue cutting interest rates to stimulate economic activity resulted in equity markets rallying strongly over the week.

US economic data

The Federal Reserve cut its benchmark interest rate by 50bps, taking it to 1%, marking the ninth easing since September 2007 when rates stood at 5.25%. However, concerns that the US has moved into recession gathered pace last week as data reflecting a sharp cutback in consumer spending in the third quarter resulted in the economy shrinking by 0.3%.

European economic data

Unemployment numbers in Germany provided a rare piece of good news, falling below 3 million for the first time in 16 years, bringing the adjusted unemployment rate from 7.6% to 7.5%. Eurozone inflation fell to a nine-month low of 3.2% for October (versus 3.6% in September), increasing the scope for further interest rate cuts by the European Central Bank.

Further signs of a thaw in credit markets

Money market rates eased further as central banks cut rates and extended various liquidity programmes. According to the Federal Reserve, the issuance of commercial paper increased for the first time in seven weeks.

Commodities

The oil price stabilised last week at about \$65 a barrel as markets reacted to OPEC's decision to cut oil production by 4.5%. Elsewhere, the dollar maintained its strengthened position, with the €/€ finishing largely unchanged at 1.27.

Index		Year to Date Return 31.12.07 to 31.10.08		1 Week Return 24.10.08 to 31.10.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-34.0	-24.4	10.5	10.1
US	NASDAQ	-35.1	-25.6	10.9	10.5
Europe	FT/S&P Europe Ex. U.K.	-40.0	-40.0	10.1	10.1
Ireland	ISEQ	-56.3	-56.3	14.3	14.3
UK	FTSE 100	-32.2	-36.7	12.7	14.4
Japan	Topix	-41.2	-23.4	7.6	2.9
Hong Kong	Hang Seng	-49.8	-42.1	10.7	10.4
Australia	S&P/ASX 200	-36.6	-45.0	3.8	9.8
Bonds	Merrill Lynch Euro over 5 year Govt.	2.9	2.9	-2.5	-2.5

Global Equities



United States

Overview

Continued optimism about expected interest rate cuts and more fiscal initiatives, and record profits at oil companies in particular, helped US stocks move higher.

ExxonMobil – The world's largest publicly-traded oil company reported a record third-quarter income of \$14.83bn. The Texas-based company has now reported back-to-back record quarters, following its \$11.68bn profit for the April - June period.

Procter & Gamble – The world's largest consumer products manufacturer announced that its first fiscal quarter profit rose by 9%, (net income \$3.3bn) largely helped by price increases and strong growth in emerging markets.



Europe

Overview

European equity markets rebounded sharply amid continuing optimism about worldwide interest rate cuts, with interest rate sensitive sectors and financials mostly leading the gain.

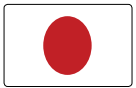
Deutsche Bank – Germany's largest bank announced that its third quarter net profit results fell by 75% to €435m as the financial crisis forced it to adjust for new write-downs of €1.2bn. The result, however, was not as bad as the market feared and the bank jumped almost 18% on the day of the announcement.



Ireland

Overview

The Irish market performed strongly, surging over 14%, after banking stocks rallied from their lows over the week.



Asia Pacific

Overview

Equity markets enjoyed one of their strongest weekly gains as optimism about additional central bank interest rate cuts took centre stage. Despite markets expecting a rate cut of 0.25%, the Bank of Japan cut its main interest rate by 0.2% to 0.3%, its first reduction for seven years. The Japanese Topix rose over 7% and Hong Kong's Hang Seng Index closed up nearly 11%. On Thursday, the Japanese Prime Minister Taro Aso unveiled a five trillion yen (\$51bn) economic stimulus package to boost the flagging economy.

Nissan Motor Company – One of Japan's largest carmakers slashed its profit forecast by 53% and abandoned previous dividend plans, as the faltering US economy adversely impacts auto demand. Nissan also announced that it will cut 1,000 contract jobs in Japan as it scales back production.

Bonds

Eurozone bonds fell significantly last week as equity markets rallied. The Merrill Lynch over 5 year government bond index fell 2.5% on the week.

Global Outlook

- Policymakers have begun to grasp the incredible risks facing the global economy and have taken a series of measures aimed at preventing a complete implosion of the global banking and economic system. 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 have to be worked through. Policy action is intended to put a floor under economies and prevent a prolonged slump.
- Policymakers have committed to taking all measures necessary to kick-start the money markets - the lifeblood of the banking system and the real economy. Progress in that regard remains slow, however, and there are abundant worrying signs of how this is impacting on the real economy. In the next few weeks and months there will be further sharp falls in official short-term interest rates in a host of countries. The ECB is due to cut by 0.5% this week and will likely pre-announce a December rate cut at the same time; UK rates will be lowered by at least 0.5% this week. Meanwhile in the US, even with rates now at 1%, investors expect an additional 0.25% reduction 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 two or three weeks ago. In the short term, a decisive election result in the US could be a positive for investor confidence. 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.
- At this stage the funds are overweight equities and close to neutral in bonds, versus the manager average. Within equity sectors the funds are overweight healthcare and underweight basic materials. Geographically the funds have an underweight position in Ireland, and Japan and the Pacific Basin, and are overweight in the UK, North America and 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.