

Eagle Star Investments

Weekly News

2nd March 2009

Global Overview

Equity markets retreat further

Fear amongst investors of possible nationalisation of leading names in the banking sector, along with plenty of disappointing economic data, caused many equity markets to finish the week at multi-year lows.

US economic data

It was a disappointing week on the economic front in the US, with new home sales, jobless claims and consumer confidence all undershooting expectations. The most notable release was the GDP figure, which was revised downwards to show a worrying 6.2% contraction over Quarter 4 2008.

Eurozone data

Confirmation that it is not only the smaller economies that are hurting badly was received late last week, as data showed that the largest eurozone economy is suffering hard. Germany experienced a record 2.1% GDP contraction over the last quarter of 2008.

Oil

The oil price was volatile over the week, trading between \$37 and \$44 per barrel, where it finished, as speculation mounted that OPEC would cut production further after UAE notified customers of delivery cuts in April.

Index	Year to Date Return 31.12.08 to 27.02.09		1 Week Return 20.02.09 to 27.02.09		
	Local Currency %	Euro %	Local Currency %	Euro %	
US	S&P 500	-18.6	-10.7	-4.5	-4.2
US	NASDAQ	-12.6	-4.1	-4.4	-4.0
Europe	FT/S&P Europe Ex. U.K.	-16.1	-16.1	-2.2	-2.2
Ireland	ISEQ	-11.5	-11.5	-0.1	-0.1
UK	FTSE 100	-13.6	-6.7	-1.5	-1.6
Japan	Topix	-11.9	-10.4	2.3	-1.8
Hong Kong	Hang Seng	-11.0	-2.4	0.9	1.2
Australia	S&P/ASX 200	-10.2	-9.8	-1.7	-1.2
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.7	-1.7	-0.8	-0.8

Global Equities



United States

Overview

The part nationalisation of Citigroup, poor economic data and fears of further downward pressure on corporate earnings led the S&P 500 to a 12-year low.

Citigroup – Citigroup tumbled 23% on the week, following news that the Government will be significantly increasing its stake in the troubled bank. This will lead to a dilution of current investors' shares and the cutting of dividend payments.

General Electric – The bellwether stock is the latest company to reduce its quarterly dividend, after it cut from 31c to 10c. Dividend payments are increasingly being cut across all sectors as earnings remain under severe pressure.



Europe

Overview

With uncertainty hanging over financial stocks worldwide, following the part-nationalisation of Citigroup, European markets finished in the red despite some positive earnings figures.

Royal Bank of Scotland – On Thursday, Royal Bank of Scotland reported the biggest annual loss in UK corporate history when it announced losses of £24.1bn for 2008. It also struck a deal with the UK Government which will see the latter inject up to £25.5bn into the bank and insure £325bn of its assets.



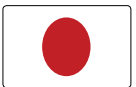
Ireland

Overview

The ISEQ finished the week relatively unchanged, as CRH's gain supported a weak market overall, especially for the banks.

Banking sector – AIB and Bank of Ireland had a tough week, as both banks exited an MSCI equity index. The resulting sell-off by investment funds tracking the index meant the banks' share prices fell sharply. They finished the week 27% and 34% lower respectively.

Elan – As part of a major reorganisation worldwide, Elan is set to cut 115 jobs in Ireland and also shelve any immediate plans for the construction of a new multimillion euro facility that would have been used for the manufacture of an Alzheimer's treatment that Elan is currently co-developing with Wyeth.



Asia Pacific

Overview

Asian markets were mixed over the week, despite worsening economic conditions both home and abroad. The worst of the data was from Japan, where exports in January suffered the steepest year-on-year decline since records began in 1957.

On top of this, industrial production dropped by almost 31% over the past year.

Bonds

Despite fear in the equity markets, bonds retreated as concern still hangs over the amount of new debt eurozone governments have taken on recently, along with the possibility of more if bank nationalisations are required. The Merrill Lynch >5 year Government bond index fell 0.8% 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.
- Much of the effort of policymakers has been directed at trying to address the crisis within the banking system but the flow of credit to the real economy remains very constrained. The current debate is centred on 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. The ECB will likely cut rates to 1.5% this week; the only issue is how quickly it gets to 1% and, as with the Fed, what further unconventional policies will be put in place. Part of that policy may involve active purchases of government bonds. However, the Fed has dithered on this front and lost valuable time since its first pronouncements on this subject in December and the ECB only seems to be in contemplation, rather than action mode.
- Prices of government bonds fell at the start of the year but have recovered since then. Sovereign ratings' downgrades and worries over the fiscal policies of countries like Ireland and Spain have taken their toll. There has even been talk of a bubble in bond markets after the surge in prices last year. 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. Direct or indirect purchases of government bonds by central banks are likely at some stage and would also be a support to prices.
- Equities have made new lows, albeit without the panic that accompanied last years' lows. But price action and sentiment remain very weak and optimism about new policy initiatives has diminished due to policy division and delay. While money market rates and risk measures have fallen significantly, 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 telecommunications and underweight consumer goods and 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.