Eagle Star Investments

Weekly News

16th March 2009

Global Overview

Equities gain strongly

Equity markets recorded their best week since last November, as investors found some much needed optimism following positive comments from several banks about their current profitability.

Financial comments

Financial stocks worldwide were helped by messages from JP Morgan, Bank of America, Citigroup and Barclays, giving indications that they have had strong starts to the year and are profitable for the first time in many quarters. This helped calm fears that some of the largest US banks could face nationalisation.

Hopeful economic data

After a few weeks of gloomy economic data in the US, there was some relief last week as a few areas showed strength. These included jobless claims, retail sales and consumer sentiment, which were all reported at better-than-expected levels.

Worrying economic data

Particularly weak German industrial data, including industrial output and orders, heightened fears that economic conditions in the eurozone's largest economy were worsening. While in Asia, Chinese exports slumped by over 25% last month, souring the mood amongst investors.

Oil

Oil gained during the week as investors anticipated an output cut from OPEC. However, OPEC announced over the weekend that it would enforce better compliance of previous cuts rather than implementing new production cuts, as it believes that this will be enough to stem eroding demand. In early trade today, oil has retreated by over 4%, to $44 per barrel.

	Index	Year to Date Return 31.12.08 to 13.03.09		1 Week Return 06.03.09 to 13.03.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-16.2	-9.4	10.7	8.8
US	NASDAQ	-9.2	-1.8	10.6	8.7
Europe	FT/S&P Europe Ex. U.K.	-17.0	-17.0	7.1	7.1
Ireland	ISEQ	-14.0	-14.0	3.4	3.4
UK	FTSE 100	-15.4	-12.2	6.3	3.5
Japan	Topix	-15.7	-15.6	0.4	-1.6
Hong Kong	Hang Seng	-12.9	-5.9	5.1	3.3
Australia	S&P/ASX 200	-10.1	-9.4	6.4	7.2
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.5	-1.5	-0.9	-0.9

Global Equities

United States

Overview

Positive trading comments, better economic data and merger & acquisitions in the pharmaceutical sector helped stocks record their best week in months. Financials led the rally as several banks highlighted their pre-provision profitability in Quarter 1 via internal memos.

Citigroup – In a leaked e-mail, Citigroup announced it was profitable in the first two quarters of its financial year. Chairman Richard Parsons then added that he believed the bank does not need any more capital injections from the Government and expressed confidence that Citigroup would remain in private hands. Its share price rose by over 70% on the week, albeit from very low levels.

Pfizer – The pharmaceutical company saw its shares jump after it announced that it has seen "significant benefit" from a new drug it is producing to treat pancreatic cancer. It finished the week 14% higher.

Europe

Overview

Despite some weak economic data, European markets gained as financial stocks worldwide rose sharply, bringing some renewed optimism to all sectors.

Financial sector – The biggest sectorial gain last week came from financials, as investors speculated that European banks may also be in a better position than expected, following positive comments from the US banking giants.

Barclays – Just this morning, Barclays announced that it is having a strong start to 2009 and it is also looking to bolster its capital without giving a stake to the Government. Capital may be raised by the potential sale of iShares, the exchange-traded funds unit of Barclays Global Investors.

Ireland

Overview

The Irish market recovered from levels not seen since 1995, with Bank of Ireland and Allied Irish Banks the largest gainers.

Aer Lingus – The airline announced an after-tax loss of almost €108m for last year, as unprecedented fuel prices and the severe economic downturn severely impacted on its financial performance. Its shares finished the week 26% lower, after it also said that it was ''unlikely" to meet earnings targets for 2009.

Asia Pacific

Overview

Asian markets followed the rest of the world higher in a broad based rally. China also gave markets a boost after the Government gave some detail on their 4 trillion yuan package of tax cuts and infrastructure spending which may help it achieve the target of 8% economic growth this year, of which the Premier Wen insists China will achieve.

Bonds

Bond markets fell back last week as investors took advantage of cheap equity valuations following positive newsflow in the US. The Merrill Lynch over 5 year Government bond index fell 0.9% last week.

Global Outlook

- At the weekend, the G20 finance ministers and central bank governors agreed to "take whatever action is necessary until growth is restored". Agreement was also reached to significantly boost the IMF's necessary efforts to aid the global economy.
- Despite all 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 early April but that is likely to be the cycle low for its official rates. The UK commenced 'quantitative easing' (buying UK government bonds) last 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 since early December and appears to offer 'quantitative easing' as an inducement to lower yields without taking action. The ECB still only seems to be in contemplation, rather than action mode.
- 'Quantitative easing' boosted the UK bond market last week with long yields falling while eurozone yields rose (without 'quantitative easing' support) as equity markets staged a sharp rebound over the week. 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 sometime to come.
- Equities rebounded sharply last week from heavy losses amid reports of operating profits year to date from large US banks (highlighted via an internal memo) in an effort to take the focus away from distressed assets on the balance sheets of the banking sector. This change in focus, combined with continuing actions by the authorities to free the flow and cost of credit assisted the relief rally in equities from oversold levels. 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, neutral in the US and Europe, and are slightly overweight in the Pacific Basin and the UK.

Print Ref: CSA63

Eagle Star Life Assurance Company of Ireland Limited
Eagle Star House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurich.ie

ZURICH®