

Eagle Star Investments

Weekly News

23rd March 2009

Global Overview

Markets gain further

Having recently had their best week since last November, equity markets pushed higher again last week, after the Federal Reserve finally unveiled its quantitative easing plans involving the buying of long-term US debt.

Federal Reserve

The Federal Reserve gave investors what they had wanted for the past number of weeks when it announced that it was planning on buying \$300bn of long-term Treasuries over the next six months. The US joins the Bank of England, the Swiss National Bank and the Bank of Japan in trying to help stabilise the economic landscape through quantitative easing.

Weekend developments

There was more good news to cheer investors in early trading this week, after the US drip fed out details about how it was going to remove a large amount of toxic assets from banks' balance sheets in its drive to pull the world's biggest economy out of deep recession. This would be implemented by using a combination of public and private funds.

Dollar & Oil

Following the Fed's announcement, the dollar experienced its biggest one-day fall ever against the euro, losing almost 5%. Having started the week close to 1.30, the €/£ rate ended at 1.36. The Fed's move did, however, give hope that the economy would begin to recover throughout the year, helping oil to finish the week above \$51 per barrel.

Index		Year to Date Return 31.12.08 to 20.03.09		1 Week Return 13.03.09 to 20.03.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-14.9	-12.6	1.6	-3.5
US	NASDAQ	-7.6	-5.1	1.8	-3.3
Europe	FT/S&P Europe Ex. U.K.	-14.3	-14.3	3.2	3.2
Ireland	ISEQ	-8.4	-8.4	6.5	6.5
UK	FTSE 100	-13.3	-11.6	2.4	0.7
Japan	Topix	-11.0	-13.3	5.6	2.7
Hong Kong	Hang Seng	-10.8	-8.4	2.5	-2.6
Australia	S&P/ASX 200	-6.9	-6.7	3.6	2.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.1	-0.1	1.3	1.3

Global Equities



United States

Overview

Moves by the Federal Reserve and some encouraging economic data, including inflation and jobless figures, pushed markets higher during the week. However, the sharp drop in the dollar was negative for eurozone investors.

American Express – As credit card defaults rise due to spiking unemployment, analysts are expecting AmEx to post a decline in earnings in 2009 and also cut its dividend. Its shares finished the week over 6% lower.

Technology sector – Technology stocks had a good week following news that Oracle will begin paying a dividend, while there was also renewed M&A activity in the sector, with the main story being IBM's reported move for Sun Microsystems.



Europe

Overview

European markets rose for the second successive week as Barclays and HSBC reported a "strong" start to 2009 and following the Federal Reserve's pledge to buy U.S. government bonds.

Financial sector – Financial stocks, led by Barclays, moved higher over the week, after further big names announced they had a strong start to 2009.

Bayer – The pharma company had a mixed week after the US Food and Drug Administration's expert panel raised some concerns over its new blood-thinning drug, Xarelto, on Thursday, before recommending to approve it on Friday. The drug is already available outside of the US but there is great potential for it, if fully approved in the coming 12-18 months, based on various indications. Its share price recovered all of Thursday's losses to finish the week unchanged.



Ireland

Overview

The Irish market finished the week 6% higher, led by banking and resource stocks.

Banking sector – Banking stocks soared again, albeit from very low levels, as speculation mounted that the Government may create a single entity to remove the toxic assets off the balance sheets of the likes of Bank of Ireland, Allied Irish Banks and Anglo Irish Bank.



Asia Pacific

Overview

Asian markets followed the rest of the world higher in a broad-based rally. Japan was the latest country to offer some form of quantitative easing by offering to buy ¥1,000bn of commercial banks' debt.

Bonds

Bond markets ticked up last week after further disappointing industrial production data from Germany, and the boost to sentiment from the announcement in the US of Fed purchases of government bonds. The Merrill Lynch over 5 year Government bond index rose 1.3% last week.

Global Outlook

- As yet, there are few signs of stabilisation in the global economy, with only the optimists pointing out that the rate of negative deterioration in some indicators has lessened somewhat. That said, the pace of policy activity continues unabated. Purchases of government bonds with the intention of lowering long-term interest rates – Quantitative Easing or QE – is the new game in town. Lower long-term rates help to reduce debt servicing costs and should contribute to stabilising property and collateral prices. The Fed is the latest central bank to participate, following the lead of the Japanese, British and Swiss authorities.
- In another variant of 'bad banks' or insurance schemes, the US will formally announce details this week of another scheme designed to remove bad assets from banks and free-up lending towards the real economy. This is in addition to last week's launch of a different scheme in the US designed to encourage new securitised lending, a significant factor in the auto industry in particular.
- While global short rates will remain exceptionally low for some time to come, UK and US short rates have already reached their cyclical lows. The ECB is set to make a final cut, to 1%, in early April but the focus is already on what other measures – including QE – it might undertake.
- QE provided a dramatic boost to the US bond market last week with long yields falling by over 0.25%. This new environment will likely support bond markets for some time to come, even in the eurozone, where the ECB is still publicly reluctant to commit to QE at this time. Overall, 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 and policy backdrop should be bond-supportive for sometime to come.
- Equity markets had a positive but choppy week following the announcement of QE in the US, more policy initiatives around the globe and helpful comments from some companies. While cyclical stocks performed strongly last week, in what could be a notable development, equity market sentiment regarding the global economy remains very weak and any equity market advance is seen as tentative still. Until the cost of credit falls more substantially, this still has to be regarded as a bear market rally in an oversold market.
- Currently, the funds are neutral 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 and Japan, are closer to neutral in 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.