

# Eagle Star Investments

## Weekly News

9th February 2009

### Global Overview

#### Equity markets gain

A slew of poor economic data failed to prevent equity markets from making healthy gains for the second consecutive week, as hopes intensified for the swift approval of the long-awaited economic stimulus package.

#### US data

US employers slashed 598,000 jobs in January, pushing the unemployment rate up to 7.6%, the highest level since 1992. Meanwhile, businesses continued to cut back on spending in December with factory orders falling for the fifth-straight month. Orders declined by 3.9%, marking the longest period of falling orders since records began in 1992.

#### Interest rate cuts

The European Central Bank left interest rates unchanged at 2%, as expected. However, ECB President Jean-Claude Trichet indicated that eurozone borrowing costs have not hit their lower limit and markets expect rates to be cut by 0.5%, to 1.5%, at the March meeting. Elsewhere, the Bank of England cut rates by 0.5%, in line with expectations, hitting a low of 1%.

#### Currencies

Oil prices finished the week at \$46 per barrel, after news of massive job cuts in the US prompted concern about the demand outlook. Sterling continued its recovery against the euro as investors welcomed the cut in UK interest rates, and the €/£ rate ended the period at 0.87. Elsewhere, the euro touched a two-month low against the dollar as fears about the region's exposure to economies on the periphery of Europe resurfaced. The €/ \$ rate finished the week at just under 1.29.

Index		Year to Date Return 31.12.08 to 06.02.09		1 Week Return 30.01.09 to 06.02.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-3.8	4.0	5.2	4.6
US	NASDAQ	0.9	9.2	7.8	7.2
Europe	FT/S&P Europe Ex. U.K.	-3.5	-3.5	3.1	3.1
Ireland	ISEQ	5.1	5.1	6.6	6.6
UK	FTSE 100	-3.2	6.2	3.4	5.1
Japan	Topix	-8.0	-1.8	-0.4	-3.2
Hong Kong	Hang Seng	-5.1	2.6	2.8	2.3
Australia	S&P/ASX 200	-6.8	-3.2	-2.0	3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-2.3	-2.3	0.3	0.3

### Global Equities



#### United States

##### Overview

US equity markets made significant gains on renewed optimism that Government interventions around the globe, in particular the US economic stimulus package, would assist an economic recovery.

**Cisco Systems Inc.** – The technology company reported a fall of 27% in profit for the fourth quarter of 2008, with net income coming in at \$1.5bn, compared to \$2.1bn a year ago. Despite this fall in profit, the company still beat market expectations.



## Europe

### Overview

European stocks ended the week over 3% higher amid renewed optimism about interest rate cuts, with financials mostly leading the gain.

**Deutsche Bank** – Shares in Germany's biggest bank plunged after it reported a record €4.8bn net loss in the final quarter of 2008, with the bank warning that it faces tough economic and financial conditions in the coming months. Despite the pessimistic outlook, the stock finished the week up almost 4%.

**Unilever** – Consumer stocks suffered a further blow after Unilever scrapped its financial target for 2009 as a result of a sharp fall in sales volumes. The company has also declined to reiterate its 2010 sales targets.



## Ireland

### Overview

The Irish market finished the week over 6% higher.

**Ryanair** – The airline issued results for the third quarter, raising its full-year outlook to a profit from breakeven, due to lower fuel costs. The stock ended up 19% on the week.

**National Irish Bank** – NIB, which is owned by the Danish bank Danske Bank, announced last week that it is taking a loan loss charge totalling €228m. The majority of this bad debt charge is being taken against National Irish Bank's commercial property lending book. Meanwhile, negotiations on the highly-anticipated recapitalisation of the main Irish banks continue, with a plan expected to be unveiled over the coming days.



## Asia Pacific

### Overview

Equity markets enjoyed a strong weekly gain on the back of better-than-expected bank lending and manufacturing data. Japan's Central Bank announced plans to purchase up to Y1 trillion of shares held by financial institutions in a bid to support the banking system. Elsewhere, the Australian central bank cut its interest rate by 1% to 3.25%. The Government also announced that it has increased the amount that it plans to pump into the economy to AUD \$42bn.

## Bonds

Eurozone bonds registered small gains as equity markets rallied. The Merrill Lynch >5 year Government bond index rose 0.3% last week.

## Global Outlook

- The global economic situation remains fragile with policymakers working to prevent a deflationary slump through aggressive interest rate reductions, higher Government spending and extraordinary interventions in the financial markets. So far, there seems to be some stabilization in the forward indicators of economic activity. However, 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. There has been a reduction in the money market funding costs of banks but, so far, little success in maintaining the flow of credit to the real economy. The current debate is centred on the creation of so-called "bad banks"; the idea being 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 has virtually pre-announced a rate cut for next month but seems concerned about rates going too much lower. However, investors are still convinced that rates will fall closer to 1% in the next few months from today's 2% level. With short rates close to zero in the US, the Fed is focused on unconventional policies such as driving down mortgage rates and the rates that companies pay to raise debt financing. Part of that policy may involve active purchases of Government bonds.
- The prices of Government bonds have fallen this year for several reasons - profit taking, concerns over rising Government supply, sovereign ratings' concerns and even talk of a bubble in bond markets. 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 would also be a support.
- So far equities have held last year's lows despite a slew of appalling economic and corporate data since then. However, sentiment and conviction remain very weak. What optimism there is tends to centre on new policy initiatives such as unconventional Fed interventions in bond markets, the Obama fiscal measures or the stimulative actions of other economies. 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 neutral equities and slightly overweight bonds, versus the manager average. Within equity sectors the funds are overweight technology and underweight consumer goods. Geographically the funds have an underweight position in Ireland and Europe, are neutral in Japan and slightly overweight in the Pacific Basin, the US 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.