

# Eagle Star Investments

## Weekly News

23rd February 2009

### Global Overview

#### Equity markets decline sharply

Equity markets fell heavily last week, with sentiment turning sour as grim economic data and weak corporate earnings emerged. The main losses came in the latter part of the week, as fears intensified that the recession is deepening and that a financial sector rescue may involve nationalisation of leading banks.

#### US data

The Philadelphia Fed survey confirmed deteriorating manufacturing conditions, plunging to -41.3 in February, compared to a decline of -24.3 in January. Elsewhere, news that US initial jobless claims continue to increase reinforced recent dire economic forecasts.

#### Eurozone data

Germany approved a €50bn stimulus plan aimed at boosting the economy. The plan covers areas such as infrastructure expenditure and tax relief. Elsewhere, the minutes from the last Bank of England meeting reflected an unanimous vote in favour of "quantitative easing", which involves buying government securities in an effort to revive the economy. The minutes also revealed an 8-1 voting split in favour of a 0.5% interest rate cut, to 1%.

#### Currencies & Oil

In currency markets, weak eurozone data pushed the single currency to a three-month low of 1.25 versus the dollar, although the euro had recovered somewhat by the end of the week. Oil prices continued to trade at low levels, finishing the week at just \$39 per barrel, as economic indicators returned market focus to falling oil demand.

	Index	Year to Date Return 31.12.08 to 20.02.09		1 Week Return 13.02.09 to 20.02.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-14.8	-6.8	-6.9	-6.0
US	NASDAQ	-8.6	-0.1	-6.1	-5.2
Europe	FT/S&P Europe Ex. U.K.	-14.3	-14.3	-8.4	-8.4
Ireland	ISEQ	-11.4	-11.4	-11.4	-11.4
UK	FTSE 100	-12.3	-5.2	-7.2	-6.2
Japan	Topix	-13.9	-8.8	-3.3	-4.4
Hong Kong	Hang Seng	-11.7	-3.6	-6.3	-5.5
Australia	S&P/ASX 200	-8.6	-8.7	-4.4	-5.6
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.9	-0.9	0.3	0.3

### Global Equities



#### United States

##### Overview

Negative economic news and worries that a major US bank may be nationalised gripped investors and led markets lower over the week. The S&P 500 index fell below 800 points for the first time since November 2008.

**Wal-Mart** – The discount retailer posted better-than-expected profit results as the downturn forces consumers to alter their spending habits and to seek lower prices. Profit fell to \$3.79bn for its fiscal fourth-quarter, that ended January 31st, compared to just over \$4bn, a year ago.

**Hewlett-Packard** – The technology bellwether has cut its full-year outlook for 2009 in response to falling demand for printers and personal computers. Net profit for its fiscal first quarter, ending January 31st, fell to \$1.85bn from \$2.13bn a year ago.



## Europe

### Overview

Amid continued financial uncertainty worldwide, European markets finished the week 8% lower.

**Anglo American** – The mining giant announced its intention to axe an additional 9,000 jobs as the economic downturn hits demand for raw materials. The company also announced a 3% fall in 2008 pre-tax profit to \$8.57bn (£6bn), and cut its dividend.

**BNP Paribas** – The French bank reported a fourth-quarter net loss of €1.37bn compared to a fourth-quarter net profit of €1bn in 2007. The loss stemmed from the disastrous performance in its investment banking unit and the jump in bad debt charges in all operational divisions. The bank noted that market conditions will remain difficult in 2009 but that it is well-placed to deal with such challenging times.



## Ireland

### Overview

The gains made over the previous two weeks were erased and the ISEQ finished the week 11% lower, with the banking sector leading the decline.

**Anglo Irish Bank** – The troubled bank's annual report was published on Friday, outlining that it may have to increase its bad debt provision up to around €5.3bn.



## Asia Pacific

### Overview

Asian stocks finished the week in the red as fears of a global recession persist. Japanese GDP contracted by 12.7% over the fourth quarter of 2008, the biggest fall since 1974 when the economy shrank by over 13%. In an effort to combat the worsening economic outlook, the Bank of Japan signed a plan to buy up ¥1,000bn (\$10.6bn) of corporate bonds and extend purchases of commercial paper and maintain its near-zero interest rate. Both the Topix and Hang Seng indices ended the week down, by 3% and 6% respectively.

## Bonds

Despite equity markets falling sharply last week, eurozone bonds registered only small gains. Worries over the exposure of euro country banks to Eastern European economies continued to cause more tension, although speculation about euro countries supporting one another's bond market did help matters towards the end of the week. The Merrill Lynch >5 year Government bond index rose 0.3% last week.

## Global Outlook

- Policymakers continue to work to prevent a deflationary slump through aggressive interest rate reductions, higher government spending and extraordinary interventions in the financial markets. With few exceptions, the current economic data is horrendous. At best 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 already allowed short-term money rates to fall below 1% and will likely cut its official rates to 1% in the next couple of months. As with the Fed, investors are focused on 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. Worries over the ratings of countries like Spain and Ireland have taken their toll, in turn generating speculation about a common eurozone bond issuance to support such countries. While today's level of short and long-term rates may be seen as "emergency" levels and hence not sustainable, 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.
- Equity sentiment and conviction remain very weak and some of the major markets have made new lows. What optimism there is tends to centre on new policy initiatives. However, policy division and delay have, so far, dented the efficacy of many of the policy announcements. 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 healthcare and underweight consumer goods and financials. Geographically the funds have an underweight position in Ireland, Japan and Europe, and are 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.

**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](http://www.zurich.ie)

Eagle Star Life Assurance Company of Ireland Limited is regulated by the Financial Regulator.

Intended for distribution within the Republic of Ireland.

