Eagle Star Investments

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ZURICH

Global Overview

Equity markets retreat

Despite initially experiencing inter-day gains, global equity markets came under pressure as the week progressed, with disappointing economic data renewing concerns about the strength of the economic recovery.

G20 meeting in Pittsburgh

At the G20 meeting, the Federal Reserve announced that it will commence scaling back its emergency liquidity programmes. Also, in a co-ordinated announcement, the European Central Bank, the Swiss National Bank and the Bank of England reported that they will begin reducing their emergency dollar liquidity programmes from October onwards.

US economy

As expected, the Federal Reserve left interest rates unchanged at its last meeting, assuring markets that rates will be maintained at a record low for an "extended period". Durable goods orders in August disappointed, falling by 2.4%, after a revised 4.8% gain in July. Existing home sales also fell in August, ending four months of consecutive gains. On a positive note, consumer expectations rose by more than expected, increasing to 73.5 in August compared to 63.5 in July.

European economic data

The minutes from the last Bank of England meeting revealed that it had voted unanimously to maintain the asset purchase programme at £175bn in September. However, the minutes noted that increasing this programme could still be justified.

Commodities & the dollar

Oil prices led the retreat across commodity markets, after US data showed an unexpectedly large rise in inventory levels and weak housing data heightened fears about the strength of the recovery. The oil price finished the week at $66 per barrel. Meanwhile, the €/$ rate finished the week unchanged at 1.47, while gold slipped below $1,000 an ounce, to end the week 2% lower at $990.

	Index	Year to Date Return 31.12.08 to 25.09.09		1 Week Return 18.09.09 to 25.09.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	15.6	9.9	-2.2	-1.9
US	NASDAQ	32.6	26.1	-2.0	-1.6
Europe	FT/S&P Europe Ex. U.K.	20.3	20.3	-1.8	-1.8
Ireland	ISEQ	41.3	41.3	-4.2	-4.2
UK	FTSE 100	14.6	19.2	-1.8	-3.3
Japan	Topix	7.4	3.2	-1.8	0.2
Hong Kong	Hang Seng	46.1	38.9	-2.8	-2.5
Australia	S&P/ASX 200	26.6	47.8	0.4	0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	4.2	4.2	1.1	1.1

Global Equities

United States

Overview

US markets hit an 11-month high earlier in the week, but ended the week in negative territory as disappointing economic data renewed investors' concerns over the pace of the recovery.

General Mills – The food company, the maker of Cheerios and Haagen-Dazs, announced better-than-expected quarterly results of $420.6 million for the period ending 30th August, citing lower commodity costs and stronger sales in the US. The company also raised its full-year profit forecast.

Europe

Overview

Amid continued financial uncertainty worldwide, European markets finished the week almost 2% lower.

Unilever / Sara Lee deal – Consumer products giant Unilever announced that it has agreed to buy the personal-care brands from Sara Lee in a deal worth €1.27bn ($1.9bn).

Ireland

Overview

The ISEQ followed the rest of the world lower, ending the week almost 4% down, with banking, construction and resources sectors leading this decline.

AIB – The bank raised €1bn from investors in the first sale of an unsecured, non-guaranteed bond since the introduction of the government bank guarantee last September.

Ryanair – At the airline's AGM, Chief Executive Michael O'Leary reiterated previous guidance on profits, saying he expects profitability to double (€200 - €300 million range) in the year to March 2010 versus the previous 12-month period. The company will save about €460 million on its fuel bill as a result of hedging 90% of its oil costs at $62 a barrel for the fourth quarter.

Asia Pacific

Overview

Asian stocks finished the week in the red, as disappointing US data raised concerns about the strength of the economic recovery. Japanese stocks fell sharply on Friday, after Nomura Holdings (Japan's largest brokerage) announced a record $5.6bn share sale with investors, fearing that this sale is likely to cause dilution of about 30%.

Bonds

Government bond markets rallied in response to retreating equity and commodity markets and concerns that the economic recovery is stalling. The Merrill Lynch over 5 year government bond index gained 1.1%.

Global Outlook

- Economic data has improved with forecasters now anticipating positive global growth of 2.6% in 2010, after an expected fall of 2.3% this year. The strains within the financial system have eased considerably although, outside of China, bank lending is still restricted and this is a concern for policymakers, most of whom remain slightly cautious on the economic outlook. Trade tensions are not yet a major issue but, as with the recent tyres/chicken spat between the US and China, they are worth watching for any economic or market impact.
- Analysts attribute much of the economic improvement to the scale and scope of policy initiatives that were deployed to rescue the banking system and offset the collapse in private sector demand. The ultimate success of these efforts (or their unintended consequences) remains uncertain, given the size of the global crisis that they are seeking to redress.
- Short rates continue to hover between 0% and 1% in the major economies, with central banks pursuing a nuanced policy. They want to keep rates sufficiently low to ensure recovery, but also want to exit from emergency policy settings as soon as conditions permit. "Lower-for-longer" has been the dominant theme among investors in recent weeks, although future rate expectations have risen slightly in recent days.
- Inflation in most of the major economies remains supportive to bond markets, which have also benefited from the same positive liquidity backdrop that has helped other assets. In the background, however, is the exit from emergency policy settings, which is unlikely to leave bond markets unaffected. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively, helped by a generally supportive backdrop for risk.
- Global equity markets have backed off slightly from a recently-attained interim high, in what historically can be a tricky seasonal spell for equity markets. As an aside, it is worth noting that China is currently less of a factor in overall market sentiment than it had been earlier in the year, indicating that investors are now more relaxed about the prospects in the US and Europe. While Q2 earnings were dominated by banks playing the yield curve and generalised cost control in other sectors, attention will now turn to Q3 earnings and whether any new trends will develop. Having said that, earnings are still generally being revised upwards. Investors seem to have anticipated much of this already, and overall sentiment is evenly balanced at the moment.
- Currently, the funds are neutral to overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight basic materials. Geographically, the funds have an underweight position in Ireland, the US and Japan, are closer to neutral in the UK and are overweight in the Pacific Basin and in Europe.

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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

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