Eagle Star Investments
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ZURICH

Global Overview

Strong start to the year
Equity markets made a strong start to the year as further encouraging economic reports pushed some markets above their 18-month highs. The poorer US employment data injected a note of caution towards the end of the week.

US economic data
There was good economic data for investors to cheer last week. Retail sales and both Institute for Supply Management indices, manufacturing and non-manufacturing, all were at the top of analysts' expectations. However, the US economy unexpectedly saw 85,000 jobs cut in December, leaving the unemployment rate at 10%.

European data
Europe's manufacturing and services industries expanded for a fifth month in December, resulting in investor confidence jumping to levels last seen just before the collapse of Lehman Brothers in September 2008.

Chinese trade data
Data released for December showed that China has now risen above Germany as the world's largest exporter of goods. Both exports and imports in China rose strongly compared with one year previously. Both figures were above analysts' expectations.

Dollar weakens
After a strong run in November, the dollar experienced a weekly loss of 0.5% against a basket of major currencies, following the higher-than-forecast cut in US jobs. The €/$ rate ended at 1.44, a gain of 0.4% on the week.

Oil
With the dollar weakening against most major currencies, and supportive economic data and cold weather, oil rallied to a 14-month high of $83.52. It finished the week at just below the €83 a barrel mark, a gain of 4% for the week.

	Index	1 Week Return 01.01.10 to 08.01.10	
		Local Currency %	Euro %
US	S&P 500	2.7	2.2
US	NASDAQ	2.1	1.7
Europe	FT/S&P Europe Ex. U.K.	2.4	2.4
Ireland	ISEQ	3.6	3.6
UK	FTSE 100	2.2	0.8
Japan	Topix	3.7	3.7
Hong Kong	Hang Seng	1.9	1.5
Australia	S&P/ASX 200	0.9	3.1
Bonds	Merrill Lynch Euro over 5 year Govt.	0.4	0.4

Global Equities

United States

Overview
Good economic data, apart from the employment numbers, along with rallying oil and metal prices, helped US indices to their biggest weekly gains for two months. With investors awaiting earnings results over the next few weeks, caution does remain, however.

Boeing – Boeing saw its shares rally strongly after it said that aircraft orders would pick up in 2012. Last year, aircraft orders hit the lowest level since 1994. Its shares finished the week 14% higher.

Europe

Overview

Most European markets pushed higher as data for the region, along with further improvements in the US and Chinese economies, gave investors optimism. This boost comes as investors prepare to focus on the Q4 earnings results, released over the coming weeks.

Mining – Mining companies continue to benefit from the improved outlook for economies and strong commodity prices. Improvement in manufacturing data worldwide helped Rio Tinto, the world's third-largest mining company, and Xstrata to surge, gaining 7% and 11% respectively.

Ireland

Overview

The Irish market was one of the best performers last week as financial stocks rallied strongly. The CRH trading update was in line with expectations, but the outlook remained cautious for 2010, and the stock finished the week down 5%.

Banking sector – Bank of Ireland and AIB surged 38% and 28% respectively after the Finance Minister, Brian Lenihan, said that the capitalisation of the country's banking system will be resolved by the end of Q1. This would result in the banks being able to carry out rights issues over the coming months.

Asia Pacific

Overview

Asian markets rose for the third successive week as expanding manufacturing activity in the US, and surging trade in China, boosted confidence in the global economic recovery. In 2009, Asian markets outpaced the rally elsewhere in the world, amid speculation that China would continue to recover, while governments kept interest rates at record lows and also provided stimulus to the markets.

Bonds

Eurozone bonds rose alongside equities last week, after data released for December showed that the region's unemployment rate rose to 10%, an 11-year high. Industrial output data also showed some contraction on the previous month. The Merrill Lynch over 5 year government bond index rose by 0.4% on the week.

Global Outlook

- As we have been saying for some time, forecasters are positive for global growth during 2010. The key is whether the economies in Europe and the US are strong enough to stand on their own, and whether governments and central banks can withdraw some of the massive stimulus they have been providing. Note that while strains within the financial system have eased considerably, bank lending is still impaired. It is partly for this reason that policy makers remain somewhat cautious on the economic outlook and this remains a key variable to watch during the year.
- The long-term implications of the past two years and the unintended consequences of policy actions are still hot debates in the investment and political worlds. So far, risk assets have responded positively and that remains the immediate focus for most market participants.
- Short rates continue to hover in a range between 0% and 1% in the major economies. Investors keep getting nervous about rate expectations in the US and Europe, only for policy makers to make soothing comments. At the same time, the latter want to exit from emergency policy settings as quickly as conditions permit, a tricky balancing act which continues to be difficult to communicate. It is notable that end-2010 rate expectations in the US and eurozone are barely off their lows, and in the UK have only just made a new low. On balance, therefore, investors expect that low rates will persist for some considerable time.
- For bond markets, inflation data is still generally supportive, as is the general liquidity backdrop that has helped other assets. As was said many times last year, the "elephant in the room" remains the exit from emergency policy settings - which is bound to have some impact on bond markets - and these concerns continue to keep bond markets in a broad trading range. In the eurozone, peripheral bond markets - primarily Greece - have been more volatile of late, but Irish bonds have behaved well in that context.
- Global equity markets remain on the richer side of the neutral valuation line. But markets continue to grind out recoveries from any dips, with sentiment remaining positive on balance; the "pain trade" still seems to be that markets will go higher with investors forced into the markets. Many argue that the structure of the rally has been less convincing than the pure market levels suggest and that significant risks remain, but the positive forces prevail 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 basic materials and underweight utilities. Geographically, the funds have an underweight position in Ireland, are closer to neutral in the UK, US and Japan, and are overweight in Europe and the Pacific Basin.

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Zurich Life Assurance plc
Eagle Star House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

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