Eagle Star Investments
Weekly News 8th March 2010

ZURICH

Global Overview

Markets gain strongly
Equity markets gained strongly last week, as European and US economic data showed further expansion, earnings data beat expectations and merger & acquisition activity continued in a number of sectors. Many markets have almost returned to the 15-month highs reached in early January.

German factory orders
Factory orders in the eurozone's largest economy rose by 4.3% in January, compared with the forecast gain of only 1.3%. They were also up 19.6% from a year earlier, confirming the economic recovery which gained traction over the past 12 months.

US jobs data
Non-farm payrolls fell by 36,000 over the past month, compared with the expected reduction of 68,000, helping the unemployment rate hold steady at 9.7%. Further to this, the Institute of Supply Management's data releases continued to show economic expansion over the past month.

Oil price
Following on from the previous week's strong GDP data, the oil price rose as the jobs and manufacturing data in the US and factory orders in the eurozone continued to show improvement. Oil finished the week at $81.50 a barrel, a rise of 2.3%.

Currencies
Greece's proposal to improve its debt situation was taken well by the markets, helping the euro to gain against the yen. Against the dollar, however, the €/$ finished the week unchanged at 1.36, as the improving economic situation in the US supported the dollar.

	Index	Year to Date Return 31.12.09 to 05.03.10		1 Week Return 26.02.10 to 05.03.10	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	2.1	7.5	3.1	3.0
US	NASDAQ	2.5	8.0	3.9	3.9
Europe	FT/S&P Europe Ex. U.K.	0.6	0.6	5.0	5.0
Ireland	ISEQ	1.2	1.2	4.8	4.8
UK	FTSE 100	3.5	2.0	4.6	3.7
Japan	Topix	0.4	8.9	1.9	0.1
Hong Kong	Hang Seng	-5.0	0.0	0.9	0.8
Australia	S&P/ASX 200	-2.1	4.1	2.8	4.3
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	0.0	0.0

Global Equities

United States

Overview
US markets rose every day last week following services, employment and consumer spending reports which gave investors reason to cheer. The S&P 500 is now only 1% off the 15-month highs reached in January.

Consumer sector – A private report showed that retail sales posted the biggest increase in 27 months in February. This helped the consumer discretionary sector rise by 4% on the week, one of the strongest on the S&P 500 index.

Millipore – Shares in the supplier of drug-development equipment rose by 11% after it agreed to a takeover by Merck KGaA, for roughly $6bn.

Europe

Overview

European markets posted their biggest weekly gain since July as fears surrounding Greece's debt problems eased and factory orders in Germany posted a strong gain.

Basic resources – Basic resource stocks were among the largest gainers last week, as the price of copper continued to rise on the back of improving economic conditions. Rio Tinto rose by 10% and Xstrata by 15%.

Ireland

Overview

The Irish market gained almost 5% as, apart from the banks' gains, Grafton Group rose by almost 22% as the market reacted favourably to its latest earnings release.

Allied Irish Banks – Shares in the bank soared by 47%, having been extremely weak, after management stated that it plans to raise capital by selling assets or finding an investor before turning to shareholders and the Government. The bank also reported a smaller-than-estimated full-year loss.

Asia Pacific

Overview

Asian markets gained for another week, after good manufacturing data in India and better-than-expected economic data in the US and eurozone. The resource-rich Australian economy continued to demonstrate its health when its Central Bank raised interest rates by 0.25%. This is the fourth rise since last October.

Bonds

Despite the better-than-expected jobs data in the US and an up-tick in eurozone economic data, fears surrounding Greece's debt problems remained supportive for bond markets. The Merrill Lynch over 5 year government bond index finished the week unchanged.

Global Outlook

- Economists expect the global economy to expand by 3% in 2010, following a fall of just over 2% last year. A key issue is whether private sector demand in Europe and the US is strong enough to allow governments and central banks to withdraw some of the massive stimulus they have been providing. Additionally, it is notable that bank lending is still quite constrained. Partly for this reason, policymakers remain somewhat cautious on the economic outlook and this remains a key factor to watch during the year.
- While policymakers and academics continue to grapple with the long-term implications of the credit burst (and the unintended consequences of policy actions), market participants work with a shorter time horizon; such longer-term worries tend to be aired only periodically, as in the recent equity market correction.
- Short rates remain at emergency levels in the major economies, although investors are nervous about the withdrawal of such low interest rates, especially when they see rate hikes in economies such as Australia. Central bankers in the US and Europe are keen to remove emergency policy settings but don't want to do so prematurely, a balancing act which continues to be difficult to communicate. Despite that, it is notable that end-2010 rate expectations in the US, UK and eurozone have only increased marginally from their cycle lows. On balance, therefore, investors expect that low rates will persist for some considerable time.
- For bond markets, inflation data has remained pretty supportive. As was the case for much of last year, the 'elephant in the room' remains the exit from emergency policy settings and these concerns help to keep bond markets in a broad trading range; at present European bond prices are towards the top of their range with a slightly weaker bias in the near term. However, it has been the fiscal woes in Greece that have been the dominant concern so far this year. Some sort of a "solution" is being ironed out and Greek spreads should fall further if this happens, but the longer-term picture for the euro will need a more far-reaching set of proposals.
- Equity market optimism was dented by an almost 10% correction from early 2010 highs. More worries over a hard landing in China, plus fiscal risks in the eurozone, have offset strong corporate earnings. However, sentiment swung excessively negatively and set the stage for a recovery as we have witnessed recently. Valuations are reasonable, and we think that liquidity conditions should remain constructive; in the near term, markets have room to push on a bit further from here.
- Currently, the funds are neutral to slightly long in equities and closer to neutral in bond weightings, versus the manager average. Within equity sectors, the funds have gone much closer to neutral but are still overweight technology. Geographically, the funds are underweight in Ireland and Europe, neutral in the UK, slightly overweight in Japan and the Pacific Basin and overweight in the US.

Print Ref: CSA63

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