Eagle Star Investments

Weekly News 24th May 2010

ZURICH®

Global Overview

Equity markets fall

It was a negative week on equity markets as uncertainty still surrounds the management of the European debt crisis by governments and regulators, while economic data also failed to match expectations.

German short-selling

Last week saw the German financial regulator move to ban naked short-selling, speculating on declines in companies the investor does not own. The ban applies to the shares of ten German financial companies, as well as uncovered short-selling of European government bonds with credit-default swaps. This is with a view to curbing speculation against countries and financial institutions in the eurozone.

US economic data

There was some disappointing US economic data weighing on markets during the week. New jobless claims rose by 25k, to 471k, slightly ahead of economists' forecasts. The Mortgage Bankers Association said a record number of mortgages were in foreclosure in Q1 and the Conference Board Leading Economic Indicators showed some unexpected slowdown in April. These may result in the economic expansion cooling in the second half of the year.

Euro recovers from lows

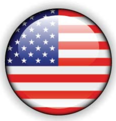
The euro hit a 4-year low against the dollar on Wednesday, but fears that the currency was oversold caused some traders, who had been betting against it, to buy it late in the week. This helped it rally and the €/$ rate ended the week at slightly below 1.26, a strengthening of 1.7%.

Commodities

Crude oil declined once again over the week on concern that European governments will struggle to contain the debt crisis, hurting economic recovery. The oil price finished at $65 a barrel, a fall of over 2%. This is the third successive week of declines.

	Index	Year to Date Return 31.12.09 to 21.05.10		1 Week Return 14.05.10 to 21.05.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-4.1	5.6	-4.3	-5.8
US	S&P 500	-2.5	11.4	-4.2	-5.2
US	NASDAQ	-1.8	12.2	-5.0	-5.9
Europe	FT/S&P Europe Ex. U.K.	-7.9	-7.9	-3.9	-3.9
Ireland	ISEQ	-2.9	-2.9	-6.3	-6.3
UK	FTSE 100	-6.5	-4.6	-3.8	-5.8
Japan	Topix	-3.1	14.8	-6.1	-4.6
Hong Kong	Hang Seng	-10.6	1.4	-3.0	-4.1
Australia	S&P/ASX 200	-11.6	-7.1	-6.6	-13.9
Bonds	Merrill Lynch Euro over 5 year Govt.	4.6	4.6	1.1	1.1

Global Equities



United States

Overview

US equities fell last week after economic data hurt already weak investor sentiment. The S&P experienced its biggest fall in a year on Thursday, but recovered strongly on Friday to pare some of the week's losses.

Sectors – The energy and industrial sectors were the weakest over the week, as leading indicators pointed to a slowing of growth. This had the effect of pushing oil to its lowest levels for the year. Boeing and ConocoPhillips were both heavy fallers.

Europe

Overview

European markets fell as investors fear that the current crisis will hurt economic growth worldwide. Despite the euro's recovery last week, the fall in the value of the euro over the past few weeks will have a positive effect for export-related stocks.

Mining – Mining stocks fell as metal prices declined after the weaker-than-expected leading indicator data in the US and ongoing proposals for a new tax on mining profits in Australia. Rio Tinto, one of the largest European mining stocks, finished the week 6% lower.

Ireland

Overview

The Irish market finished over 6% lower, with Bank of Ireland, AIB and Elan all sharply down.

Bank of Ireland – The bank's shareholders approved the sale of around four billion new shares in a rights issue for shareholders.

Asia Pacific

Overview

Europe's crisis and disappointing data from the US, added to the fears of slowing economies within the Asian region, caused markets to finish the week lower. China and Japan's markets were sharply down after China increased steps to cool its property market and Japan's finance minister warned about ongoing deflation affecting the economy.

Bonds

German bonds rose to a record high, as uncertainty surrounding the debt crisis continued. Some peripheral bonds also gained after Germany voted to back the country's share of the eurozone's bailout package. The Merrill Lynch over 5 year government bond index rose by 1.1% over the week.

Global Outlook

- Expectations remain that the global economy will expand by around 3.3% this year, with inflation pressures in most of the developed economies remaining modest. A key issue still is whether the private sector in Europe and the US is strong enough to allow some of the massive stimulus to be withdrawn. This factor, plus constrained bank lending, makes central banks still somewhat cautious on the economic outlook.
- After the Greek debt contagion, concerns about the long-term consequences of the credit burst, and the unintended consequences of a myriad of policy actions, are once more centre stage for both investors and policymakers.
- Short rates remain at emergency levels in Europe and the US, although rates have been increased in economies such as Australia, India and China. Central bankers in Europe and the US are keen to remove emergency policy settings but they don't want to do so prematurely. It is now clear that developments in Greece will temper the timing of policy changes across the globe. It is notable that end-2011 rate expectations remain at cycle lows in the US, UK and eurozone. Investors expect that low rates will persist for some time.
- Inflation data, short rates and liquidity conditions continue to be of general support to the major bond markets. German and US bond markets continue to benefit from a flight away from peripheral markets and renewed discussion about "disinflation". The collapse in the functioning of the Greek bond market has had global implications and refocused minds on the many implications of highly-indebted countries. Extraordinary measures, including ECB bond purchases, have had some success so far but the longer-term success of the euro project will need a more far-reaching set of proposals than we have seen to date. Peripheral bond market spreads have narrowed but the situation is still very delicate and conviction is low.
- The Greek bond collapse has caused the third correction in global equities this year. One result is that policy will remain easier for longer, especially in Europe, helping to underpin risk markets. It is notable that after a 20% fall in Chinese equity prices this year, policymakers' rhetoric is growing much more moderate. In most markets, nervousness is still the order of the day with investors quickly forgetting recent good economic and earnings' data, which had been a fundamental support for equities. Some further volatility and falls are quite possible in the very near-term before markets steady themselves, and we anticipate that opportunities could arise soon.
- Currently, the funds are underweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are reasonably balanced, with a reduced but still overweight position in technology and some industrials. Geographically, the funds are underweight in Ireland, the Pacific Basin, the UK and Europe and are neutral in Japan and 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

ZURICH®