

Eagle Star Investments

Weekly News

29th September 2008

Global Overview

Markets fall as bailout package stalls

Equity markets traded lower over the week as momentum for the bailout package slowed, heightening concerns for economies worldwide.

Banking concerns

Rumours gathered throughout the week that negotiations, to push the government bailout package of \$700 billion through US Congress had stalled. With this uncertainty and the collapse of the largest loans and savings bank in the US, Washington Mutual, credit markets seized up as banks continue to refuse to lend to each other, amid fears of further bank failures. Over the weekend there was some light at the end of the tunnel after the government announced that it is due to vote today on the package.

Investor confidence

With the financial crisis worldwide, there was further weak economic data in Europe. Germany's Ifo business sentiment indicator declined to the lowest level in three years, while French business confidence slumped to a five-year low. Both of these pointed to the growing threat of a recession in the eurozone.

Commodities

Oil recorded its biggest one-day rise on Monday when it rose by \$14 dollars to finish at almost \$120 per barrel. This spike was temporary though, as it followed the expiry of the futures contract for October, which often results in volatile market conditions. As the bailout package continued to be debated in Congress and leaders worldwide feared for the world's largest economies, oil retreated over the remainder of the week to finish at just over \$106 per barrel.

Index		Year to Date Return 31.12.07 to 26.09.08		1 Week Return 19.09.08 to 26.09.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-17.4	-17.5	-3.3	-4.7
US	NASDAQ	-17.7	-17.8	-4.0	-5.3
Europe	FT/S&P Europe Ex. U.K.	-26.9	-26.9	-3.8	-3.8
Ireland	ISEQ	-45.4	-45.4	-8.5	-8.5
UK	FTSE 100	-21.2	-27.1	-4.2	-5.3
Japan	Topix	-22.2	-18.2	-0.1	-0.7
Hong Kong	Hang Seng	-32.8	-32.7	-3.3	-4.6
Australia	S&P/ASX 200	-22.6	-26.7	2.1	1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	1.9	1.9	0.7	0.7

Global Equities



United States

Overview

Equity markets continued to fall throughout the week over fears for both the economy and the financial system, as the credit crisis claimed another casualty.

Washington Mutual – Regulators moved to seize control of WaMu, the largest loans and savings bank in the US, as liquidity dried. This is the biggest banking failure in US history.

JP Morgan – In an emergency deal brokered by the government, JP Morgan acquired the banking operations of WaMu, leading to a ratings upgrade for the financial services company. JP Morgan bucked the trend of financial stocks after it finished the week almost 3% higher.



Europe

Overview

Amid financial uncertainty worldwide and weakening economic data, European equity markets finished the week sharply lower.

Fortis – Fortis received an €11bn capital injection from the Belgian, Dutch and Luxembourg governments to improve its financial situation. Under the deal, Fortis will have to sell its stake in Dutch bank ABN Amro which it partially took over last year.

Bradford & Bingley – UK bank, Bradford & Bingley, underwent a similar nationalisation when the government stepped in, making the mortgage lender the second UK bank to be taken into public ownership this year. This followed weekend talks which failed to find a completely private sector solution. The Treasury announced that it would take over B&B's mortgage portfolio and sell its branches and deposits to Spanish bank Santander.



Ireland

Overview

It was another volatile week on the ISEQ as banking stocks continued to slump as investors feared further bank failures while they await details on the bailout package in the US.

Banks – The seizing up of credit markets worldwide and a slowing domestic economy contributed to further falls for Irish banks last week, as the market focused on bad debt concerns and the possibility of capital raising as the cycle progresses.



Asia Pacific

Overview

Growing concern for the financial sector caused Asian markets to end the week in negative territory. Some of the world's largest banks by market capitalization are now from the region and one of these, Japan's Mitsubishi UFJ Financial Group, agreed to take a 20% stake in JP Morgan, helping it to finish the week higher.

Bonds

Bond markets remain volatile as fears for economies worldwide persist, and amid worries about the higher debt issuance associated with the US bailout package. Bonds recorded a gain over the week as investors flocked to their safe haven status while talks on the rescue package seemed to falter. The Merrill Lynch >5 year government bond index rose 0.7% on the week.

Global Outlook

- The cumulative effect of previously high oil prices and the credit crisis continue to add downside risks to the global growth picture. US data has been 'recession-like' while the eurozone economy has slowed abruptly in recent months. Asian (ex-Japan) economies are performing reasonably well, although a slower global economy is clearly impacting. Japan's lack of exposure to the credit crunch has been a positive, but its export dependence a clear negative. Weaker growth and the 25% fall from the high in oil prices have helped lower inflation expectations and taken some of the pressure off interest rates.
- US interest rate expectations have gyrated wildly in the past few weeks; currently investors expect the Fed to lower rates by a further 0.25% before year end.
- While the ECB has been surprised by the recent slowdown in the eurozone economy, so far this has had little impact on its pre-occupation with inflation risks. More poor economic data last week has convinced investors that the ECB will be forced to lower rates soon.
- While a continuation of low interest rates is probably essential to the global healing process, bond markets have been quite volatile in the past couple of weeks, fearing a resurgence of bond issuance and a greater appetite for risk, in the light of the US bailout proposals.
- That package should be passed this week and should remove the 'Armageddon' risks for the US financial system and global equity markets. While the headwinds for equities are still strong, a more positive sentiment may be underpinned by this move. But uncertainty is very high and markets will likely continue to be very volatile.
- The US dollar still has a lot of valuation support versus European currencies. However the funding implications of the US rescue package may undermine sentiment over the next while and see some reversal in the recent dollar rally.
- The funds are currently neutral in equities and still slightly long bonds versus the manager average. Within equity sectors, healthcare is an overweight and financials are underweight. Geographically the funds have an underweight position in Ireland, the Pacific Basin and Japan, and are overweight in the US, Europe 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.

