Eagle Star Investments

Weekly News

8th December 2008

Global Overview

Equity markets remain volatile

A series of interest rate cuts by European central banks failed to improve sentiment across markets as investors remain concerned about the global economic outlook. Despite the dismal data, there was a late rally on Friday which offset some of the week's earlier losses, especially in the US.

US economic data

US companies slashed payroll numbers at the fastest rate in 34 years, spurring concern that the recession is deepening. The dismal jobs data is expected to accelerate the implementation of fiscal stimulus plans by President-elect Barack Obama and also lead to some form of "compromise" bailout plan for the US auto makers.

European/UK economic data

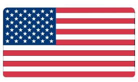
The European Central Bank cut its key interest rate by a greater-than-expected 0.75%, to 2.5%. EU data released last week confirmed that the economy is in its first official recession since it's formation in 1999. Elsewhere, the Bank of England reduced its key interest rate by 1%, taking the base rate to 2%, the lowest level since November 1951.

Commodities

Fears that the world's economy is heading for a deep recession, prompted renewed selling pressure across commodity markets. Oil prices sank below the $42 a barrel mark, its lowest for nearly four years. In currency markets, sterling bore the brunt of dismal economic data with the £/$ rate hitting a six-and-a-half year low at 1.46 and €/£ rate touching a record high of 0.8725. Elsewhere, the €/$ rate finished the week at just under 1.27.

Index		Year to Date Return 31.12.07 to 05.12.08		1 Week Return 28.11.08 to 05.12.08	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-40.3	-31.2	-2.3	-1.8
US	NASDAQ	-43.1	-34.4	-1.7	-1.3
Europe	FT/S&P Europe Ex. U.K.	-48.2	-48.2	-7.1	-7.1
Ireland	ISEQ	-64.2	-64.2	-2.3	-2.3
UK	FTSE 100	-37.3	-46.8	-5.6	-10.0
Japan	Topix	-46.7	-25.5	-5.9	-1.9
Hong Kong	Hang Seng	-50.2	-42.3	-0.3	0.1
Australia	S&P/ASX 200	-45.0	-54.1	-6.8	-9.5
Bonds	Merrill Lynch Euro over 5 year Govt.	10.6	10.6	1.4	1.4

Global Equities



United States

Overview

US job losses soared to 533,000 in November, after widespread cuts across the country's major industry sectors. On a positive note, the planned purchase of $500 billion in mortgage securities by the Federal Reserve resulted in a record surge of new home mortgage applications.

Auto sector – Sharp labour market weakness added urgency to the three US auto-makers' bid, namely Ford, General Motors and Chrysler, to reach agreement on a $34 billion rescue package with the US government.

AT&T – the Dallas-based telecommunications giant announced that it will eliminate 12,000 jobs, or about 4% of its workforce. It plans to reduce next year's capital expenditure by about 12% from 2008 levels, as it joins a raft of corporations trying to slash costs in the face of the economic downturn.

Europe

Overview

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

Credit Suisse – Credit Suisse announced they are axing 5,300 internal jobs and a further 1,400 with contractors in support functions in an effort to slash costs and to adjust to falling markets. The bank suffered losses of CHF 3 billion (£1.7bn) in the two months ending November.

Ireland

Overview

It was another volatile week on the ISEQ with the fall primarily due to an underperforming banking sector.

Anglo Irish Bank – Results from the bank failed to alleviate any of the pressure on the banking sector with shares in the bank dropping by 40% over the week. The bank reported pre-tax profits of €784 million for the three months until the end of September, down by 37% from 2007. The Bank is putting aside €0.5 billion in anticipation of losses on loans. The market remains concerned on further bad debts and the need for a recapitalisation of the bank.

Aer Lingus – The airline received a second offer from Ryanair to buy the company at €1.40 per share, which the airline rejected as it undervalues the company.

Asia Pacific

Overview

Asian stocks finished the week in the red as fears of a global recession persist. The Chinese market bucked the trend, responding positively to reports that the government may take further measures to boost its economy.

Bonds

Eurozone bonds gained significantly over the week as the European Central Bank cut rates by more than expected, with further cuts expected though 2009. The Merrill Lynch over 5 year government bond index rose 1.4% on the week.

Global Outlook

- Global policymakers continue to address the most dangerous economic situation for 70 years, with aggressive interest rate reductions and extraordinary interventions in the financial markets. Policy action is intended to stabilise the banking system and prevent the global recession from becoming a prolonged deflationary slump.
- Efforts to revive the money markets and banking system - the lifeblood of the real economy - have been slow to work and in the meantime the banking crisis has rapidly spread into the real economy where companies, their suppliers and customers are credit-constrained. A more rapid improvement in the money markets is vital if further deterioration in economic activity is to be forestalled.
- Despite current rates being at extremely low levels, further falls in official short term interest rates will be seen in a host of countries over the coming weeks and months. The ECB will probably have to lower rates by at least another 1%, to 1.5% and UK rates will likely fall below 1%. In the US, even with rates now at 1%, investors expect rates to fall to 0.5% or lower at next week's meeting. With rates at these levels, the Fed is likely to be preparing more unconventional interest rate policies - such as trying to actively lower longer term interest rates.
- With some markets priced for the deepest slump since the Great Depression, government bonds have received strong safe haven flows. Bond prices may suffer periodically as governments step-up their borrowings substantially, but the very weak growth and very low inflation backdrop will continue to underpin the market.
- The shattering loss of confidence in corporate bond markets is also manifest in equity markets, where investors have become almost inured to the huge volatility, the seemingly random price action and large price falls. Co-ordinated policy action is intended to arrest that fear and set the stage for the return of some confidence into the banking system, the real economy and equity markets. History suggests that powerful rallies can occur in the midst of severe bear markets - such as we have experienced this year - especially when sentiment is totally shattered, as it has become in the past two months. The key to any sustainable rally however is the unfreezing of the money markets and the re-opening of the corporate bond markets. Expect volatility and uncertainty to persist until those markets begin to return to normality.
- Currently, the funds are neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight healthcare and underweight basic materials and financials. Geographically, the funds have an underweight position in Ireland and Japan, and are slightly overweight in the US, the UK, Europe and the Pacific Basin.

Print Ref: CSA63

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

ZURICH®