Eagle Star Investments
Weekly News 30th August 2010

ZURICH

Global Overview

Equities fall, but rally to the close
Equity markets finished the week lower as investors' concerns about the health of the economy linger. However, markets finished the week with a rally following comments about stimulus measures by the Federal Reserve.

Federal Reserve comments
The Chairman of the Federal Reserve, Ben Bernanke, announced that the Fed has further tools to support the economy and fight deflation, if needed, but fell short of outlining what these measures entailed. He also said it expected the economy to expand at a modest pace in the second half of 2010. This gave equity markets some much needed support.

US economic data
Following on from disappointing housing data in the early stages of August, a report late last week showed that existing home sales are also under pressure, as they fell to their lowest annual pace in a decade. New durable goods orders were also weaker-than-expected, further weighing on investor sentiment.

Currencies
The euro gained slightly against the dollar as fears grew that the world's largest economy may be faltering, following the weak data reported last week. The €/$ rate ended the week at 1.27, a rise of 0.4%. For similar reasons, the yen also gained against the dollar to reach a 15-year high midweek.

Oil
Oil prices finished the week relatively unchanged at $73 a barrel, as economic growth shows signs of slowing in the largest economies. During the week, oil hit its lowest close in 11 weeks, before rallying following support for the economy from the Fed.

	Index	Year to Date Return 31.12.09 to 27.08.10		1 Week Return 20.08.10 to 27.08.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-3.7	7.1	-0.6	-0.8
US	S&P 500	-4.5	7.3	-0.7	-1.0
US	NASDAQ	-5.1	6.7	-1.2	-1.5
Europe	FT/S&P Europe Ex. U.K.	-3.8	-3.8	-0.3	-0.3
Ireland	ISEQ	-10.3	-10.3	-3.1	-3.1
UK	FTSE 100	-3.9	3.8	0.1	-0.3
Japan	Topix	-9.7	10.9	-1.2	-1.0
Hong Kong	Hang Seng	-5.8	5.5	-1.8	2.2
Australia	S&P/ASX 200	-10.3	0.7	-1.4	-0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	8.6	8.6	0.6	0.6

Global Equities

United States

Overview
US stock markets fell for the third week running, their longest stretch since February. Defensive sectors, like utilities, were the best performers as investors looked to preserve capital. Comments from Ben Bernanke gave markets some support on Friday and helped markets pare some of their losses.

3Par – A bidding war between Dell and Hewlett-Packard has pushed shares of 3Par, an IT virtual storage company, up over 230%. Bidding began on August 16th with Dell's bid of $18 a share, before several new bids from both companies. Both companies have now offered $30 a share, or over $2bn in total.

Europe

Overview

European markets were slightly lower over the week as investors worried that some countries will struggle to contain budget deficits, hurting economic growth in the region.

Stoxx 600 – At its quarterly review, Stoxx announced that Yell and AIB would be removed from the index which caused shares to fall by 16% and 6% respectively.

Ireland

Overview

The Irish market fell by 3% on the week, dragged lower by a disappointing outlook from CRH.

CRH – The building materials company announced H1 results which were broadly in-line with expectations. However, a disappointing outlook for the rest of the year took investors by surprise and caused shares to fall by 13% over the week. CRH expects earnings to fall by 10% this year due a deteriorating outlook for its US materials business.

Asia Pacific

Overview

Asian markets were among the worst performers last week as they had closed prior to comments from Ben Bernanke. Japanese exports declined for the fifth month in a row due to the strengthening yen and Prime Minister Kan said the government was ready to take action in the currency market when it is necessary.

Bonds

Eurozone bonds advanced for the fifth straight week as investors moved towards the relative safety of fixed interest. Global growth worries and, closer to home, concerns that the banking crisis is deepening here, hit investor demand for risk assets. The Merrill Lynch over 5 year government bond index rose by 0.6% over the week.

Global Outlook

- Global growth forecasts are healthy enough for this year and next (3.6% and 3.3%). However, weak bank lending and financial market volatility adds to downside risks to both forecasts and there have been some concerns over a double-dip in the US economy. Inflation pressures globally remain modest, reflecting weaker data in developed economies and stronger readings in emerging economies and Asia. Indeed, further disinflation is a greater near-term concern than inflation. Exports are very strong from some European economies but domestic demand remains subdued and the global economy is still very lopsided. The key concern is whether the private sector in Europe and the US can grow without continued government support.
- Central banks continue to set interest rates at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Canada, India and China. By extension, 2011 rate expectations have reached new cycle lows in the US, UK and eurozone, in many ways an extraordinary situation which is at odds with the expectations for recovery.
- These low short-term interest rates, combined with disinflation concerns, continue to support the major bond markets such as Germany, the US and Japan, with long-term interest rates falling to levels that will unnerve many risk investors and policymakers. Bond prices in these markets have risen so quickly that some levelling out or pullback could easily occur in the short-term. Peripheral bond spreads in the eurozone have widened again of late, with Irish yield spreads over Germany trading back over 3.5%, a new cyclical wide. Some of this is due to illiquid trading conditions, with a sense that Ireland's fiscal measures have been swamped by its banking woes. It is quite possible that the rescue mechanism in place for eurozone countries will be further tested in the months ahead.
- Global equities are only modestly lower this year but this masks very large gyrations: we have had four 7%+ falls, one 9% and one 14% rally. Related to this is that investors' convictions are very low and holding periods very short. Low interest rates certainly provide some forward support to risk markets. Additionally, investors seem to believe that the Fed will ride to the rescue with further quantitative easing policy ("QE2"), although the Fed's recent comments don't suggest anything new is imminent. Sentiment and market action have turned mixed again and bond market developments are a concern for equity markets as they suggest that the macro environment is deteriorating; caution is probably warranted still.
- Currently, the funds remain slightly underweight equities and slightly overweight bonds, versus the manager average. Within equity sectors, the funds are now reasonably balanced. Geographically, the funds are underweight in Ireland and the UK, overweight in Europe and closer to neutral in other markets.

Print Ref: CSA63

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