Eagle Star Investments

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Global Overview

Good week for equities
Most equity markets finished the week higher, with some hovering around four and five-month highs, following economic data worldwide which boosted investor sentiment.

Federal Reserve
At its latest meeting, the Fed announced it would continue to "monitor the economic outlook and is prepared to provide additional accommodation to support the economic recovery", to help avoid disinflation. These measures may include additional purchases of government securities.

German business confidence
German business confidence unexpectedly rose in September, as conditions in the eurozone continued to improve. It is now at its highest level in over three years.

US economic data
Durable goods orders, excluding transportation, rose at twice the rate analysts had expected in August. Housing starts showed improvement after the latest figure was reported at the top end of analysts' expectations. Existing home sales also beat expectations, but still remain at quite low levels.

Commodities & dollar
The unexpected rise in capital equipment purchases was a factor in the price of oil rising during the week. Investors speculated that exports to the world's largest economy will rise as a result of this, boosting demand for commodities. The price ended the week at almost $80 a barrel, a weekly rise of 4%. Following the Fed's comments offering further support to the economy, if required, the €/$ rate rose to 1.35, increasing the appeal of commodities as an alternative asset, pushing gold to yet another all-time high.

	Index	Year to Date Return 31.12.09 to 24.09.10		1 Week Return 17.09.10 to 24.09.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	2.7	10.1	1.2	-0.9
US	S&P 500	3.0	9.6	2.1	-1.2
US	NASDAQ	4.9	11.6	2.8	-0.4
Europe	FT/S&P Europe Ex. U.K.	1.7	1.7	1.0	1.0
Ireland	ISEQ	-9.3	-9.3	-0.3	-0.3
UK	FTSE 100	3.4	7.8	1.6	-0.4
Japan	Topix	-7.6	8.5	-1.6	-3.1
Hong Kong	Hang Seng	1.1	7.5	0.7	-2.4
Australia	S&P/ASX 200	-5.5	7.2	-0.8	-1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	6.5	6.5	0.5	0.5

Global Equities

United States

Overview
US markets rose for the fourth-week running as improving capital goods orders and housing data, including housing starts and existing homes sales, boosted sentiment. The jobs picture continues to fluctuate, with the latest jobless claims data disappointing investors.

Apple – The tech company saw shares jump over 6% after a broker increased its 2011 sales estimate for the iPad. Apple continues to expand distribution channels and increase sales to businesses and is now the second-largest company in the world by market value.

Europe

Overview

European stocks advanced on optimism that the economic recovery will continue, following the latest German business confidence data and Federal Reserve comments.

Adidas – Shares of the sports-good maker jumped after its CEO said the company will increase sales and profits in 2011, as demand in China improves and Russia becomes one of its top markets. Shares traded 7% higher over the week.

Ireland

Overview

As investors await details of the final cost of the Anglo Irish Bank bailout later this week, Irish yield spreads widened to a record 427 basis points compared with German debt.

Banks – Shares in banking stocks fell as uncertainty surrounds their refinancing plans and the widening bond spread. Bank of Ireland and Allied Irish Banks fell by 9% and 14% respectively.

Asia Pacific

Overview

Asian stocks were mixed despite signs of economic growth in the region and speculation of increased exports to the US. Optimism of further growth was helped by the Hong Kong Monetary Authority saying the city will grow during the remainder of 2010, while Taiwan announced export orders rose more than expectations.

Bonds

Eurozone bonds gained marginally, despite equities rallying to the end of the week. The extra premium investors demand to hold debt of peripheral countries, including Ireland and Portugal, rather than German debt, widened to record levels during the week. The Merrill Lynch over 5 year government bond index rose by 0.5% over the week.

Global Outlook

- Global growth forecasts are quite healthy enough for this year and next (3.6% and 3.3%). However, weak bank lending and financial market volatility add 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 are close to or have reached new cycle lows in the US, UK and eurozone, which underlines the risks facing the global economy.
- Low short-term interest rates and disinflation concerns, have been a support to major bond markets such as Germany, the US and Japan; long-term interest rates have recently fallen to record or near record levels. Bond prices have since retreated from their recent highs as stronger economic data have somewhat allayed fears of an imminent slide towards recession. Peripheral bond spreads in the eurozone have also remained under widening pressure, including in Ireland, where spreads over Germany made new wides of 4.4%. Some of this recent Irish weakness had been due to illiquid trading conditions, with a sense that Ireland's fiscal measures have been swamped by its banking woes. Ireland has funded well this year and has a large cash buffer. However, the fact that Irish and Portuguese spreads are widening suggests that markets are probing the credibility of the rescue mechanism in place for eurozone countries.
- Global equities are slightly positive this year but this masks very large gyrations: we have had four 7%+ falls, one 8%, one 10% 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 do not suggest anything new is imminent. After the latest rally it is possible that equities push on further. However, sentiment has already rebounded meaning that the fuel for further gains may be limited. On balance, we are cautious at the moment because we have seen plenty of false dawns this year; additionally the fact that bond yields continue to fall or remain very low in major markets suggests that the macro disinflation risks are still high.
- Currently, the funds are slightly underweight equities and 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.

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

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