Eagle Star Investments
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ZURICH

Global Overview

Most equity markets move higher
Despite the release of disappointing US economic data, most equity markets moved higher over the week, with investors choosing to focus on the prospect of further asset purchases by the Federal Reserve along with upbeat third-quarter US and European earnings releases.

US economic data
In the US, despite the weekly jobless claims declining by 23,000 to 452,000, the previous week's reading was revised upwards.

China interest rate rise
The Bank of China surprised markets with its first interest rate rise in almost three years, increasing the one-year lending rate by 0.25% to 5.56%.

German ZEW Index
The closely watched ZEW Index revealed that German investor sentiment fell in October, but by less than expected. Also, on a positive note, the IFO survey confirmed another jump in October, to its highest level since March 2007.

Dollar
The US dollar started the week under pressure as the prospect of further quantitative easing by the Federal Reserve weighed heavily on the currency. However, later in the week, it received support as the surprise interest rate rise from China boosted its safe-haven appeal. The €/$ rate ended the week at 1.39, up 0.6%.

Commodities
Oil traded within a range last week as speculation intensifies that the US Federal Reserve will shortly embark on a fresh round of monetary stimulus. However, the imminent publication of a report expected to show an increase in US crude oil stockpiles, resulted in it slipping back to end the week at almost $82 a barrel.

	Index	Year to Date Return 31.12.09 to 22.10.10		1 Week Return 15.10.10 to 22.10.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.4	10.4	0.4	0.4
US	S&P 500	6.1	9.2	0.6	1.2
US	NASDAQ	9.3	12.5	0.4	1.1
Europe	FT/S&P Europe Ex. U.K.	4.2	4.2	0.9	0.9
Ireland	ISEQ	-8.6	-8.6	1.4	1.4
UK	FTSE 100	6.1	6.1	0.7	-0.8
Japan	Topix	-9.1	7.0	-0.2	0.3
Hong Kong	Hang Seng	7.5	10.5	-1.0	-0.5
Australia	S&P/ASX 200	-4.6	7.2	-0.9	-1.3
Bonds	Merrill Lynch Euro over 5 year Govt.	6.7	6.7	-0.7	-0.7

Global Equities

United States

Overview
Despite mixed economic data releases, US equities were bolstered by upbeat third quarter earnings results (Amazon, American Express, Caterpillar, Coca-Cola and UPS) and the prospect of QE2 by the Federal Reserve. Elsewhere, financial stocks remained unsettled by concerns about mortgage losses.

Corporate earnings results – Of the 163 companies that have reported third-quarter earnings, 83% have exceeded estimates. Amazon reported worldwide revenues rose by 39% to $7.56 billion (despite rising costs), with sales supported by its Kindle e-reader. Elsewhere, Caterpillar's quarterly earnings beat analyst estimates and raised guidance for the full year.

Europe

Overview

Better-than-expected corporate earnings results and economic data releases helped drive markets almost 1% higher.

Nokia – The mobile phone maker reported better-than-expected third-quarter profits, boosted by solid demand for its smart-phones. It also announced a restructuring for some of its operations and the loss of 1,800 jobs as the new Chief Executive Stephen Elop looks to put his stamp on the company.

Ireland

Overview

The Irish market was one of the strongest performers last week, finishing the week over 1% higher.

Asia Pacific

Overview

Both Hong Kong's Hang Seng Index and Japan's Topix Index bucked the trend last week, shedding 1% and 0.2% respectively. China's economic growth grew by 9.6% in the third quarter from the same period a year ago and the recent interest rate hike announcement clearly reflects concern at the country's property market strength and increasing inflation.

Bonds

Eurozone bond markets retreated over the week as confidence grew over recovery prospects in the region and investors' return to riskier assets. Unusually, peripheral bond markets underperformed Germany even as German bonds fell in price, probably reflecting some profit-taking after the recent strength in peripheral markets. The Merrill Lynch over 5 year government bond index fell by 0.7% over the week.

Global Outlook

- Global growth forecasts remain quite healthy although they are being revised lower rather than higher at the moment. Asian economies are quite strong, driving export demand from some European economies; European domestic demand remains subdued and the global economy is still very lopsided. The underlying strength of private sector demand in Europe and the US is still a key concern. Weak bank lending and financial market volatility add to downside risks to these areas. Inflation pressures globally remain modest, reflecting weaker data in developed economies and stronger readings in emerging economies and Asia. Indeed for Europe and the US, further disinflation is probably a greater near-term concern than inflation.
- 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. In the US and UK 2011 rate expectations continue to make new cycle lows although they have risen by 0.4% from their cycle lows in the Eurozone due to ECB rhetoric which suggests some anxiety about normalising short-term interest rates. This seems premature at this stage and we would expect rates to continue to remain low for some time to come.
- 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 in the US and Japan although German rates have risen 0.4% from earlier lows. Irish bond spreads versus Germany remain wide but have narrowed somewhat after recent banking announcements, the cancelling of debt auctions and the prospect of a comprehensive budgetary announcement in coming weeks. However, it remains to be seen whether the latter will have the desired market impact. Ireland has certainly funded well this year and has a large cash buffer. However, the risk remains that investors continue to probe the credibility of the rescue mechanism in place for eurozone countries; if so a rocky road still lies ahead for Irish bonds.
- Global equities are ahead by almost 6% so far this year but it has been a period of very high volatility with several large gains and falls over that time. Partly because of this investors' convictions remain low and holding periods are quite short. Low interest rates certainly provide some forward support to risk markets and earnings' expectations have been managed well by companies. Additionally, investors seem to believe that the Federal Reserve's further quantitative easing policy ("QE2"), will underpin risk assets. However, sentiment has already rebounded meaning that the fuel for further gains may be limited, especially if next week's QE2 announcement disappoints. Currently, we are waiting to see how the balance of these forces will develop in the short term.
- Currently, the funds are neutral 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 Europe and Pacific basin and closer to neutral in other markets.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life.
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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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