Eagle Star Investments

Weekly News 15th November 2010

ZURICH

Global Overview

Markets retreat
Equity markets finished the week lower as rumours circulated that Ireland was on the verge of requesting emergency aid from the European Union. Elsewhere, economic data in China and some US earnings results also contributed to the sell-off of equities.

Ireland
It is being rumoured that officials from the European Central Bank are pressing Ireland to seek emergency funds in order to tackle the debt crisis and help peripheral European bond markets return to normality. The government has denied that any discussions are ongoing and reiterated that the country is fully funded to mid-2011.

US quantitative easing (QE)
The Federal Reserve has commenced its Treasury purchase programme in its latest attempt to drive down borrowing rates in order to help reduce unemployment and avert deflation. Last week it purchased $7.2bn of US Treasuries.

China
China's market tumbled as consumer prices rose more-than-expected and the government announced it was increasing the banking reserve ratio. Investors are expecting interest rates to be raised shortly, in order to try to curtail inflation.

Dollar
The euro came under pressure last week as investors feared that some peripheral European countries, including Ireland, Spain and Portugal, would struggle to contain debt and repay bondholders. The €/$ rate ended the week just shy of the 1.37 mark, representing a fall of 2.9%.

Oil
Oil prices retreated from a two-year high as speculation that China will increase interest rates, curbing demand, caused it to fall over 2%. It finished the week at $85 a barrel.

	Index	Year to Date Return 31.12.09 to 12.11.10		1 Week Return 05.11.10 to 12.11.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	6.7	13.6	-1.4	0.1
US	S&P 500	7.5	12.8	-2.2	0.7
US	NASDAQ	11.0	16.4	-2.4	0.5
Europe	FT/S&P Europe Ex. U.K.	3.5	3.5	-1.3	-1.3
Ireland	ISEQ	-10.1	-10.1	-1.0	-1.0
UK	FTSE 100	7.1	12.2	-1.3	1.0
Japan	Topix	-6.7	10.4	1.4	2.9
Hong Kong	Hang Seng	10.7	16.1	-2.6	0.2
Australia	S&P/ASX 200	-3.7	10.8	-2.2	-2.5
Bonds	Merrill Lynch Euro over 5 year Govt.	4.9	4.9	-1.3	-1.3

Global Equities

United States

Overview
The S&P 500 Index recorded its biggest weekly drop in over three months as concern about Europe's debt crisis, some disappointing earnings results and data from China hurt sentiment.

Cisco – The technology company had its biggest one-day drop since July 1994 last Thursday after it said revenue for the quarter will be around $10.1 to $10.3bn, compared with analysts' estimates of $11.1bn. Its shares fell 17% over the week and also caused the tech sector to finish the week in the red.

Europe

Overview

European markets fell amid fears that some countries will struggle to reduce their budget deficits and may even need some form of emergency aid.

Earnings – France's Natixis, Germany's Commerzbank and Italy's UniCredit all fell between 3% and 9%, after announcing Q3 earnings results which disappointed investors. Elsewhere, Alcatel-Lucent fell heavily as tech stocks retreated following Cisco's results.

Ireland

Overview

The Irish market fell in line with other markets, despite investors believing the country will require some emergency assistance from the EU.

Bank of Ireland – Shares in the bank fell to their lowest price in 19 months after its loan-to-deposit ratio rose and management said it expected full-year operating profit to drop up to 40% from 2009 levels. This is as a result of higher funding costs.

Asia Pacific

Overview

After recording their biggest weekly gain of 2010 a week previously, most markets retreated last week as the fear that China will move to increase its interest rate spooked investors. Banks and energy companies were amongst the heaviest decliners.

Bonds

The cost of insuring Ireland's sovereign debt hit a new record as the government struggles to convince investors it can survive without requesting emergency aid from the EU. Irish bond spreads versus Germany improved to just over 5.5% by the end of the week, having hit 6.5% midweek. The Merrill Lynch over 5 year government bond index fell 1.3% over the week.

Global Outlook

- Global growth forecasts for next year remain fairly healthy although, at the margin, they are being revised lower rather than higher at the moment. Asian economies remain strong, driving export demand from some European economies; the global economy is still quite lopsided and the underlying strength of private sector demand in Europe and the US remains a key concern for policymakers. 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, UK and eurozone 2011 rate expectations have risen between 0.3% and 0.5% from their recent cycle lows, with the ECB appearing to want to normalise monetary policy as quickly as possible. Some of this seems premature at this stage given the precarious state of some of the peripheral economies and, on balance, we would expect rates to continue to remain low for some time to come.
- Low short-term interest rates and disinflation concerns had been a support to major bond markets such as Germany, the US and Japan; long-term interest rates had fallen to record or near-record levels in these markets, although US and German long term rates have risen by 0.4% to 0.5% more recently. Irish 10-year bond spreads versus Germany are now at 5.5%, but this is 1% less than last week's wides. Also Greek spreads are not far from the wides that prevailed before its rescue package was put in place. Ireland's large cash buffer has not proved sufficient to quell the belief that a fiscal rescue mechanism will be required. This situation is likely to drag on for some time to come and, as Greece proves, a rescue mechanism may not be sufficient to address investors' concerns.
- Global equities have gained 7% this year but it has been a period of very high volatility with several large gains and falls over that time. Low interest rates certainly provide some forward support to risk markets and earnings' expectations have been managed well by companies. The net impact of the Fed's further quantitative easing policy ("QE2") has been neutral but markets and sentiment had been strong in anticipation of such moves and the break into new ranges appears to have been a false one. The fuel for further gains may be limited in the very short term, but investors anticipate a more positive seasonal sentiment thereafter.
- 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, the UK and the US, overweight Europe, further overweight Pacific Basin and closer to neutral in other markets.

Print Ref: CSA63

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

ZURICH®