Eagle Star Investments
Weekly News 29th November 2010

ZURICH

Global Overview

Mixed picture for equities
Equity markets endured a poor week, unsettled over the escalating situation in peripheral eurozone economies and tensions on the Korean peninsula.

Ireland's financial package
Details of the EU/IMF financial aid package for Ireland were thrashed out over the weekend. While the full detail is not known, the package will amount to €85 billion, with €17.5 billion coming from Ireland's own resources.

Economic data
US third-quarter GDP was revised higher, to 2.5%, with consumption jumping to 2.8%. Meanwhile, the German IFO Index reached a post-reunification high.

Currencies
Against a week-long background of turmoil within the eurozone periphery, the euro fell 3% against the dollar, closing the week at just over 1.32.

Oil
Oil prices rose over 2% on the week, as demand rose in the face of cold winter weather.

	Index	Year to Date Return 31.12.09 to 26.11.10		1 Week Return 19.11.10 to 26.11.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.9	15.2	-1.2	1.1
US	S&P 500	6.7	15.4	-0.9	2.2
US	NASDAQ	11.7	20.9	0.7	3.7
Europe	FT/S&P Europe Ex. U.K.	2.3	2.3	-1.8	-1.8
Ireland	ISEQ	-10.4	-10.4	-4.7	-4.7
UK	FTSE 100	4.7	9.6	-1.1	-0.3
Japan	Topix	-4.5	14.6	-0.3	2.2
Hong Kong	Hang Seng	4.6	13.0	-3.1	-0.3
Australia	S&P/ASX 200	-5.6	9.7	-0.7	0.2
Bonds	Merrill Lynch Euro over 5 year Govt.	2.8	2.8	-0.8	-0.8

Global Equities

United States

Overview
US stocks slipped despite more good economic numbers, worried by events in Korea and the eurozone. The market was closed on Thursday for Thanksgiving, while the indications from Black Friday, the busiest shopping day of the year, suggested higher spending.

Del Monte – The food producer rose 7% on the week after it agreed to a $5 billion buy-out by a group led by Kohlberg Kravis Roberts, the private equity house.

Europe

Overview

European markets fell, understandably, against the unsettling background of events in Ireland and elsewhere in the periphery, financials being particularly hard-hit.

UK banks – RBS and Lloyds Banking Group were down over 7% on rising fears of European bank debt restructuring, while Barclays was down over 5%. UK banks have substantial exposures to the Irish economy.

Ireland

Overview

The Irish market gave up its gains of the previous week, falling almost 5%. Market heavyweight, CRH, fell 5%, reflecting a decline in cyclical stocks, while huge movements in bank stocks were responsible for half of the overall decline on the Index.

Asia Pacific

Overview

Asia Pacific markets were unsettled by the North Korean attack on a South Korean island, which killed four people, with Hong Kong down over 3%. Hong Kong was also impacted by measures to dampen property price appreciation. Almost all Indices in the region fell. However, Japan held up well with more evidence of foreign buying.

Bonds

Eurozone bonds fell again last week as contagion within the periphery saw yields in Portugal, Spain and Italy rise as Ireland was engaged in talks with the EU/IMF. The Merrill Lynch over 5 year government bond index finished the week 0.8% lower.

Global Outlook

- Global growth forecasts for next year remain fairly healthy although, at the margin, they have been revised lower rather than higher in the recent past. Asian economies are still strong; indeed, parts of China's economy are still too robust for the authorities there and further measures have been taken to address these concerns. The global economy continues to be 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.
- 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 0.2% and 0.4% from their recent cycle lows, with the ECB appearing to want to normalise monetary policy as quickly as possible. However, given the precarious state of some of the peripheral economies in the eurozone, we would expect the ECB to stay on hold for some time to come; for different reasons, the same conclusion applies to the Fed.
- German and US long-term interest rates have risen by 0.4% to 0.7% from recent record or near-record levels. Irish 10-year bond spreads versus Germany are now at 6.3%, close enough to the recent wides. The weekend's announcement of the loan package to Ireland is complex and it may take time for investors to determine whether it produces a virtuous circle of higher confidence and lower funding costs. Ultimately, a full scale, long-dated, ECB-funded mechanism could well be needed.
- Global equities have gained close to 6% 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") hasn't set the world alight so far but markets and sentiment had been strong in the 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 slightly underweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are underweight financials and overweight technology, with other positions more balanced. Geographically, the funds are underweight in Ireland, the UK and the US, overweight in Pacific Basin and closer to neutral in Europe and Japan.

Print Ref: CSA63

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