Eagle Star Investments

Weekly News 13th December 2010

ZURICH

Global Overview

Equities rebound

Almost all global equity markets rebounded last week amid increased optimism about the global recovery and as a compromise deal to extend expiring US tax cuts, surprised markets. With concerns over peripheral eurozone debt appearing to ease, US, European and some commodity markets reached their highest levels in almost two years.

US economic data

The University of Michigan Survey confirmed that US consumer sentiment improved by more-than-expected in early December. Elsewhere, the US trade deficit narrowed sharply in October, while only a slight decline was expected.

German Factory Orders

German factory orders rose by 1.6% in October, a sign that the country's recovery is broadening.

Fitch Ratings downgrades Ireland

Ireland's credit rating was cut for the second time in two months by a further three levels, by Fitch Ratings, from A+ to BBB+.

Currencies

The dollar gained 1.5% against the euro with the tax deal boosting US growth outlook. The €/$ rate ended the week at 1.32.

Commodities

Oil prices pushed above $90 a barrel largely due to the cold weather spell boosting demand before ending the week at $88. Gold hit a record $1,430.95 a troy ounce lifted by the US tax cut announcement before profit-taking caused it to end the week below $1,400. Elsewhere, silver pushed above $30 an ounce to a 30-year peak.

	Index	Year to Date Return 31.12.09 to 10.12.10		1 Week Return 03.12.10 to 10.12.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	9.5	19.7	1.1	1.9
US	S&P 500	11.2	20.5	1.3	2.4
US	NASDAQ	16.2	25.9	1.8	2.9
Europe	FT/S&P Europe Ex. U.K.	5.9	5.9	1.5	1.5
Ireland	ISEQ	-4.8	-4.8	3.3	3.3
UK	FTSE 100	7.4	13.8	1.2	2.6
Japan	Topix	-2.1	17.7	1.0	0.6
Hong Kong	Hang Seng	5.9	14.4	-0.7	0.2
Australia	S&P/ASX 200	-2.6	15.8	1.1	1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	1.6	1.6	-0.7	-0.7

Global Equities

United States

Overview

US stocks continued to move higher last week (led by financials), as better-than-expected economic releases and news that a deal worth $270 billion had been struck by US President Obama with Republicans, to extend Bush-era tax breaks for two years. This news prompted economists to upwardly revise their US growth forecasts for next year.

GE – General Electric announced that it plans to increase its dividend for the second time this year. Shares finished the week 6% higher.

Dollar General – The discount retailer posted better-than-expected quarterly profit, helped by lower costs and better-than-expected sales figures over the Thanksgiving Holiday period.

Europe

Overview

European markets made healthy gains over the week, amid mounting optimism about the outlook for the global recovery.

Financial and energy stocks – Financials along with energy stocks performed strongly on the back of upbeat economic data.

Ireland

Overview

The Irish market led the global recovery, gaining over 3% over the course of the week.

Bank of Ireland – The bank may begin offering to swap subordinated bonds at a premium to the market rate as it seeks to bolster its capital.

Asia Pacific

Overview

Japanese markets gained 1% as optimism of economic growth momentum in the US picking up again gave markets a boost. However, worries over further tighter monetary policy in China tempered the mood somewhat, and the Hang Seng Index lost almost 1% over the week. On Friday, China's central bank raised the reserve requirement ratio by 0.5%, to a record high of 18.5% for major banks.

Bonds

A dramatic sell-off in "core" government bonds, led by US Treasuries dominated market news last week. Concerns over peripheral eurozone debt were largely put on the backburner as the Treasury market suffered its worst two-day decline in two years. The Merrill Lynch over 5 year government bond index ended the week 0.7% lower.

Global Outlook

- Global growth forecasts for next year remain fairly healthy. Asian economies are still strong; indeed, parts of China's economy are still too strong for the authorities there. The global economy continues to be quite lopsided and the underlying strength of private sector demand in parts of Europe and in the US remains a key concern for policymakers. This is causing tensions within and between the major trading blocks. Inflation pressures overall remain modest, reflecting weaker data in developed economies and stronger readings in emerging economies and Asia, especially China.
- Central banks continue to set interest rates at emergency levels in Europe and the US, although they have been increased in some of the stronger economies such as Canada, India and China. In the US, UK and eurozone, 2011 rate expectations have risen by about 0.5% above their cycle lows. The ECB is keen to normalise monetary policy as quickly as possible. That is part of the reason for internal tension over its buying of peripheral bonds. However, given the precarious state of some of the peripheral economies, 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 reasonably sharply from the cyclical lows, e.g. by almost 1% in the US and by 0.9% in Germany. We would expect that bonds in these markets should at least stabilise in the short-term, especially because rising yields run clearly counter to existing central bank policy, especially in the US. Spreads in peripheral eurozone markets continue to be another major focus of investors. The ECB's latest bout of bond buying has had some positive impact on Ireland, but confidence is still deflated and the various machinations at EU political level have perplexed investors. Investors are still probing the depth of commitment to the various peripheral markets. It remains unlikely that we will get through this peripheral country debt situation without a full scale, long-dated ECB funded mechanism.
- In what has been a year of high volatility, global equities have gained around 9.5% so far; and in local currency terms markets have just reached a new high for this year. In the short-term, markets still seem to be well-supported although some of the sentiment measures are quite high now suggesting investors are fully invested. Nonetheless, we are entering what is generally a seasonally positive time for equity markets when investors will be looking to extrapolate the most recent trend into the new year.
- Currently, the funds are neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and still a little light in financials with other positions reasonably balanced. Geographically, the funds are underweight in Ireland and Europe, neutral in the UK, Japan and the US and overweight Pacific Basin.

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Print Ref: CSA63

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