Eagle Star Investments

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ZURICH

Global Overview

Equity markets flat
With the exception of strong gains in Asia, most markets finished what was a volatile week, relatively flat. Numerous strong economic growth indicators helped stocks offset worries surrounding the political unrest in the Middle East, which has caused oil prices to surge, fuelling inflationary concerns.

US economic data
The jobless rate in the US continued to improve last month, declining to 8.9%, as employers added new jobs and reduced layoffs. Employers added 192,000 jobs in February and, further to this, jobless claims for the previous week fell by 20,000. The latest Institute for Supply Management indices for both manufacturing and non-manufacturing businesses showed further expansion last month, rising to their highest levels since May 2004 and August 2005 respectively.

ECB meeting
The European Central Bank held rates constant at 1% when it met during the week. However, it warned that rates could be increased as early as next month due to inflation being above the ECB's 2% target for the third successive month. Inflation in February stood at an annual rate of 2.4%, up from 2.3% in January.

UK economic data
The latest house price data in the UK showed a larger-than-expected fall, adding to uncertainty as to whether the Bank of England will be able to raise interest rates to help tame inflation.

Currencies
Following the ECB's comments on Thursday, the euro climbed against 15 of its 16 most traded counterparts. Overall during the week, the €/$ rate gained 1.6%, to end just shy of 1.40.

Commodities
Oil prices rose further after fighting in Libya resulted in oil production in the country being cut by as much as 1 million barrels a day. The oil price (West Texan) reached a two-and-a-half year high of $104 a barrel, a weekly rise of 6.7%. Other commodities, including silver and cotton, the latter due to short supply concerns, also continued their ascendancy.

	Index	Year to Date Return 31.12.10 to 04.03.11		1 Week Return 25.02.11 to 04.03.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.0	0.8	0.4	-0.9
US	S&P 500	5.0	0.5	0.1	-1.5
US	NASDAQ	5.0	0.4	0.1	-1.4
Europe	FT/S&P Europe Ex. U.K.	2.9	2.9	-0.8	-0.8
Ireland	ISEQ	1.2	1.2	-0.8	-0.8
UK	FTSE 100	1.5	1.2	-0.2	-0.8
Japan	Topix	6.3	0.3	1.5	-0.8
Hong Kong	Hang Seng	1.6	-3.0	1.7	0.2
Australia	S&P/ASX 200	2.5	-3.1	0.6	-1.4
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.2	-1.2	-0.7	-0.7

Global Equities

United States

Overview
US stocks were volatile but ended flat, as the strong economic data was offset by worries that the rising oil price would result in slower economic growth. On Thursday, the S&P 500 index surged 1.7%, its largest one-day gain in three months, following the encouraging jobless claims data, but it gave back half of this on Friday.

Stocks – Pfizer gained as it benefited from some rotation into healthcare by investors, while technology company, Agilent, also rose after it increased its long-term sales and operating margin forecasts. Energy stocks benefited from the rising oil price and, over the week, the energy sector index moved higher again.

Europe

Overview

European markets retreated during the week as expectations of the first interest rate rise by the ECB were brought forward to as early as next month.

Standard Chartered – The bank's shares gained over 4% after it announced that its profits rose 28%, to a record £2.6 billion, as bad-loan costs fell. It also predicted "double-digit" income growth for 2011.

Ireland

Overview

The Irish market was in line with most European markets. Notable fallers included CRH, -3%, and Bank of Ireland, -18%.

CRH – The building materials group reported a 2010 pre-tax profit of €534 million, down 27% from 2009, while revenues also declined, by 1%, to €17 billion. Its CEO said 'it was looking forward to revenue growth in 2011', but warned that this would depend on raw material prices, which are currently rising.

Asia Pacific

Overview

Asian stocks rose after better-than-expected economic data, from within the region and the US, reinforced investors' views that economic growth has remained strong. In his state-of-the-nation speech, Chinese Premier, Wen Jiabao, said that the government's top economic priority for the year is to fight inflation to help avoid social unrest. Inflation in the country rose at an annual rate of 4.9% in January, mainly due to food and oil prices.

Bonds

Partly as a result of Jean-Claude Trichet's (President of the ECB) comments regarding interest rate increases, European bond markets retreated last week. Strong economic data worldwide was a further factor which contributed to these falls. Analysts are now pricing in three quarter-point increases, by year-end. The Merrill Lynch over 5 year government bond index fell 0.7% over the week.

Global Outlook

- Economists' and investors' expectations for global growth this year remain fairly healthy. Survey evidence points to stronger growth in some of the developed markets but a peaking-to-slower growth period in some of the developing economies. Inflation is forecast to remain a regional or country-specific concern for investors rather than a global problem but there are some shared concerns, such as energy prices. Countries are still resisting currency strength, a sign that central banks are not overly concerned about inflation.
- Developed country central banks continue to set interest rates at emergency levels, although they have risen elsewhere already. ECB commentary more or less guarantees a rate hike in April, earlier than anticipated by investors, even if it might be very difficult for some of the peripheral economies to absorb higher interest rates. The Fed may stay on hold for longer but rates are still anticipated to rise in the US in the next 12 months.
- German and US long-term interest rates have risen more than 1% from their cyclical lows, in line with higher short rate expectations and better growth numbers. Indeed, the general consensus is that German and US yields will rise further over the course of 2011, although they may fall further in the immediate term. This month is set to produce yet another major EU policy announcement on the peripheral debt crisis but investors remain concerned that they are being softened up for sovereign default in the weaker eurozone countries.
- Global equities have risen by just under 1% in euro terms so far this year but there is still a general market expectation for further gains, on the basis of reasonable valuations and mid-teens earnings' growth. Equity markets have remained resilient in the face of surging oil prices and political unrest in the Middle East. Rising bond yields have even been taken as a positive as they are deemed to reflect a "normalisation" of the global economy following the financial crisis. Sentiment and survey measures point to high (possibly excessive) levels of optimism and this has proven a strong factor so far this year. We can expect gains during the year to be accompanied by volatility and we can anticipate unspecified "surprises" over the next 12 months, as experienced last year.
- Currently, the funds are slightly underweight equities and slightly overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and energy and underweight healthcare and financials, with other positions reasonably balanced. Geographically, the funds are underweight in Ireland and Europe, overweight in Japan and neutral in the US and other regions.

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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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