

Eagle Star Investments

Weekly News

14th April 2009

Global Overview

Equity markets rise further

As earnings season kicked off in the US with some good news, investors took the view that results would not be as gloomy as expected, helping equity markets worldwide extend their recent run of form.

Federal Reserve minutes

Minutes from the last Fed meeting revealed its fear that the US economy may suffer more as credit remains tight, in a weak financial system, which would result in a cycle of further unemployment and slumping business and consumer spending. There have, however, been some surprises to the upside in economic data released since that meeting in mid-March.

European Central Bank

The final figure for Quarter 4, 2008 GDP was revised downward to a record low of -1.6%, as economic data continues to show strong headwinds for the economy. Investors are now expecting the key interest rate to hit the 1% level at its meeting on May 7th, which is seen as the low-forecast for this downward cycle.

Oil

The oil price tracked equities higher over the week, following slightly better US unemployment data and stockpiles rising less than forecast.

| Index | | Year to Date Return 31.12.08 to 10.04.09 | | 1 Week Return 03.04.09 to 10.04.09 | |
|-----------|--------------------------------------|---------------------------------------------|-----------|---------------------------------------|-----------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| US | S&P 500 | -5.2 | 0.7 | 1.7 | 4.0 |
| US | NASDAQ | 4.8 | 11.2 | 1.9 | 4.2 |
| Europe | FT/S&P Europe Ex. U.K. | -6.3 | -6.3 | 1.7 | 1.7 |
| Ireland | ISEQ | 1.3 | 1.3 | 1.8 | 1.8 |
| UK | FTSE 100 | -10.2 | -4.3 | -1.1 | -0.2 |
| Japan | Topix | -1.5 | -5.5 | 1.8 | 3.6 |
| Hong Kong | Hang Seng | 3.6 | 9.9 | 2.4 | 4.8 |
| Australia | S&P/ASX 200 | -1.4 | 6.6 | -1.7 | 1.4 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | -1.2 | -1.2 | -0.2 | -0.2 |

Global Equities



United States

Overview

Last week saw US equity markets record their fifth straight week of gains, but they now face their strongest challenge of this rally, as earnings season kicks off in earnest this week.

Alcoa – Aluminium maker Alcoa started off the reporting season by announcing earnings that showed another quarterly loss, but in line with analyst expectations, as lower demand, especially from the ailing car industry, hit metal prices.

Wells Fargo – Wells Fargo announced that it more than doubled its expected earnings for Quarter 1, sparking a surge in its share price and those of most of the financial sector. Following this, Wells Fargo recouped its early week losses to finish over 26% higher.



Europe

Overview

European markets moved higher, following gains worldwide and positive news for the struggling car industry.

Car industry – The German government announced an extension, to the end of the year, to its car scrappage scheme which had been due to finish in May. It also said it was increasing the subsidies, from €1.5bn to €5bn, for buyers of low emission cars. These schemes had helped German car sales soar by 40% in March, aiding car makers already suffering from the global downturn.



Ireland

Overview

The Irish market finished the week 2% higher, as new proposals sparked a surge in financial stocks.

New bank proposals – The government announced plans to remove risky property loans from the balance sheets of the main banks and transfer them to a new 'bad banking' agency, the National Asset Management Agency. Share gains following this were pared on Thursday as ratings agency, Fitch, cut the outlooks for all banks covered by the scheme, citing slowing economic growth and rising unemployment amongst its reasons.



Asia Pacific

Overview

Good sentiment towards equities continued in the Asian markets, helping them to another positive week. Investors also cheered the announcement of the third stimulus package in Japan, with \$154bn being made available to revive the economy. Most metal prices were pushed higher following this, with copper the main gainer.

Bonds

Bond markets traded in a range in what was a quiet week. However, peripheral bond markets did perform better than the core markets, like Germany and France. Expectations of a further cut in the key interest rate to 1%, at the start of May, grew as the week progressed following a downward revision to GDP. The Merrill Lynch over 5 year Government bond index fell by 0.2%.

Global Outlook

- Amidst a severe global recession and a collapse in world trade, investors have been heartened by the rhetoric of the G20 and also some tentative green shoots in global economic data. Although end-user demand remains weak, companies have cut back production quite severely. Any stabilisation in the latter process could provide a short-term boost to growth.
- Policy activity continues unabated, ranging from fiscal expansion to quantitative easing (QE) programs, to measures aimed at removing assets from the banking system and encouraging new lending. The scale of these initiatives has been huge, but the ultimate success of these efforts is still far from assured, given the depth of the crisis faced by the global economic system.
- While short rates will remain exceptionally low for some time to come, UK and US short rates have already reached their cyclical lows. Investors still expect that a properly-executed QE policy will also keep long-term rates lower for some time, but the determination of the authorities in this regard is still unclear. The ECB disappointed at its last meeting and we will have to wait until the May meeting for details of further unconventional measures – possibly including QE measures – and a likely move to 1% short rates.
- While the current level of short and long-term rates may be seen as 'emergency' levels and hence not sustainable, it remains the case that the economic and policy backdrop should be bond-supportive for some time to come. Longer-term inflation concerns will resurface at some stage, but this seems a little premature at the moment. In the meantime, peripheral bond markets such as Spain and Ireland have benefited from "solidarity" expressions from the EU and ECB and a slightly more positive attitude towards risk assets.
- Equity markets have performed strongly in the past few weeks due to short covering and greater appetite for risk taking. While the intent of policy makers to support the global economic system makes investors think that we have already seen the lows, there is still ample scope for policy disappointment and setbacks. However, in the meantime, many of the indices have cleared hurdles that suggest fresh price gains may be in the offing. So far, this is a classic rally within a severe bear market but, even so, historically such bear market rallies can be quite large.
- Currently, the funds are slightly overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight financials and technology and underweight utilities. Geographically, the funds have an underweight position in Ireland, are closer to neutral in Japan, the US and Europe, and are overweight in the Pacific Basin and the UK.

This outlook does not constitute an offer and should not be taken as a recommendation from Eagle Star/Zurich. Advice should always be sought from an appropriately qualified professional.