

Eagle Star Investments

Weekly News

30th March 2009

Global Overview

Gains continue

Equity markets extended their recent run of form, following a plethora of positive economic data and some encouraging earnings data, pointing to a tentative sign of economic recovery.

US data

Last week saw some early signals of a stabilisation in the US economy, as durable goods orders, new and existing homes sales, jobless claims and consumer sentiment were all reported at better-than-expected levels. On top of these, personal spending increased slightly, soothing fears of a deflationary slump.

International Monetary Fund

At a meeting in Paris last week, the IMF said it believed that growth may be possible in 2010, but only "if the right policies are implemented". It is expecting the global economy to shrink by as much as 1% this year.

Oil

Oil ticked higher during the week, almost hitting \$55 per barrel, following positive economic signs for the US economy. Oil has risen for the past number of weeks, and this led to a sell-off on Friday due to rising stock piles and investor fears that the rally had run "too far, too fast". Oil finished the week just above \$52 per barrel.

Dollar

The dollar recovered some of the losses experienced after the Federal Reserve announced its quantitative easing program. Having started the week close to 1.36, the €/£ rate ended at 1.32, with the dollar gaining against most currencies following comments from Japan that the world did not need a new reserve currency.

Index		Year to Date Return 31.12.08 to 27.03.09		1 Week Return 20.03.09 to 27.03.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-9.7	-5.2	6.2	8.4
US	NASDAQ	-2.0	2.8	6.0	8.3
Europe	FT/S&P Europe Ex. U.K.	-11.8	-11.8	2.9	2.9
Ireland	ISEQ	-7.5	-7.5	1.0	1.0
UK	FTSE 100	-12.1	-9.6	1.5	2.3
Japan	Topix	-4.0	-6.7	7.8	7.6
Hong Kong	Hang Seng	-1.9	3.0	10.0	12.3
Australia	S&P/ASX 200	-1.3	1.5	6.0	8.8
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.3	-0.3	-0.1	-0.1

Global Equities



United States

Overview

US equity markets gained strongly again last week, as hopes mounted that the worst may be over for the banking system and the overall economy. The S&P 500 is on course for its best monthly gain since 1991.

Intel – The chipmaker gained over 5% on the week, after it announced it might issue up to \$1bn in stock for potential acquisitions.

KB Home – The homebuilder reported a loss for the first quarter, as writedowns on land values impacted negatively on its returns. Its shares still managed to soar 34% over the week, as the loss was smaller than analysts expected and new home sales in the US unexpectedly rose in February.



Europe

Overview

European markets followed the rest of the world higher, as hopes for an economic recovery gained traction following US economic data.

Barclays – The bank saw its shares rise by 66% last week as optimism grew that it may not need to raise additional capital after it passed the Financial Services Authority's test. This followed the announcement earlier in the week that it had a strong start to 2009.

Fiat – Fiat climbed 10% after its Chairman said that Italy's biggest automaker is seeing the first positive effects of a Government incentive program to buy new cars, raising hopes that the company is not planning a capital increase.



Ireland

Overview

The Irish market finished the week marginally higher, with weakness in the construction sector weighing on the gains.

Elan – The pharmaceutical company saw its shares surge last week, after positive uptake news for its main drug, Tysabri, and on speculation of a €8bn takeover offer from Denmark's Lundbeck. Its shares finished the week 28% higher.



Asia Pacific

Overview

The best gains of the week came from Asian markets, with the Hang Seng up by 10%, as financials rallied on loan data and recent earnings. This follows Japan's recent move to provide some form of quantitative easing by offering to buy ¥1,000bn of commercial banks' debt.

Bonds

Bonds traded in a range last week, as the large amount of bond issuance was offset by the poor economic fundamentals currently being experienced worldwide and bond purchases in the UK and US. Investors are awaiting this week's ECB meeting to see if it follows the US, UK, and others, by announcing any form of quantitative easing measures. The Merrill Lynch over 5 year Government bond index fell by 0.1% last week.

Global Outlook

- US economic data has begun to show some tentative signs of stabilisation, with a number of recent housing market releases being better-than-expected. Meanwhile, in the eurozone and Japan the data remains awful, underlining those countries' reliance on export markets and the collapse in world trade. China's data is also beginning to show some signs of improvement.
- Policy activity continues unabated. Adding to an already bewildering number of programmes, the US last week announced a revised plan to remove assets from banks' balance sheets. Meanwhile, the Fed is the latest central bank to join the Quantitative Easing (QE) bandwagon, although the exercise to date in both the US and UK has been somewhat disappointing. The G20 meets this week in the UK, although it remains to be seen whether the substance will back the undoubted positive rhetoric.
- While global 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. The ECB will likely make its final cut to 1% this week. As before, the focus is already on what other measures it might undertake. Investors expect to see more long-term financing provisions announced for banks and, perhaps, purchases of certain private sector assets. Statements that QE is being examined are also expected.
- 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.
- Equity markets may now be slightly overbought, having had such a sharp run-up last week, but most investors will hope that the markets have already seen their cycle lows. However, on the upside, equity market sentiment regarding growth is still very weak. In addition, the cost of credit remains a concern and until that falls more substantially, most investors will see any equity market gains as a bear market rally.
- Currently, the funds are neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight financials. Geographically, the funds have an underweight position in Ireland and Japan, are closer to neutral in the US and Europe, and are slightly 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.