

Eagle Star Investments

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Global Overview

Equity markets continue to make gains

Equity markets enjoyed another week of healthy gains, as better-than-expected economic releases and rising oil prices fuelled hopes for a sustained global economic recovery.

Upbeat US economic data

Investors got further indications of stabilisation, as May's US employment report showed non-farm payrolls falling by 345,000, well below the consensus forecast for a fall of 530,000. However, in a separate survey, the unemployment rate still rose to a 25-year high of 9.4%. Nonetheless, there is still hope that the pace of job cuts is slowing. Elsewhere, US jobless claims fell for the first time since January and this, combined with better-than-expected manufacturing data, services sector data, construction spending and home sales, boosted investor sentiment.

European Central Bank

The European Central Bank left its benchmark interest rate unchanged at a record 1%, as expected. ECB President, Jean-Claude Trichet, noted that the ECB has lowered its economic forecasts for the region for this year and next year, primarily due to a weak first quarter. The economy is expected to shrink by 4.6% in 2009, a much larger contraction than the previously forecast contraction of 2.7%.

Bank of England

In line with expectations, the Bank of England left interest rates unchanged at 0.5% for a third month in a row. The Bank did not announce any fresh measures to stimulate the economy. However, it reported that it will continue with its £125bn asset-buying programme.

Currencies & Commodities

In currency markets, the dollar recovered from its new lows against the euro last week, as better-than-expected US employment data reduced bearish sentiment towards the US currency. The €/ \$ rate ended the week slightly lower, at \$1.40. On commodity markets, the oil price advanced to fresh seven-month highs, as confidence increased for a revival in the global economy. The oil price finished the week up 3%, at over \$68 a barrel.

	Index	Year to Date Return 31.12.08 to 05.06.09		1 Week Return 29.05.09 to 05.06.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	4.1	3.6	2.3	3.0
US	NASDAQ	17.3	16.7	4.2	5.0
Europe	FT/S&P Europe Ex. U.K.	4.4	4.4	1.5	1.5
Ireland	ISEQ	25.1	25.1	7.7	7.7
UK	FTSE 100	0.1	9.6	0.5	0.4
Japan	Topix	6.7	-1.9	2.1	0.1
Hong Kong	Hang Seng	29.8	29.2	2.8	3.5
Australia	S&P/ASX 200	6.7	20.9	4.0	5.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-2.5	-2.5	-0.9	-0.9

Global Equities



United States

Overview

US equity markets recorded another good week, as better-than-expected non-farm payrolls and the latest employment report encouraged hopes that economic conditions are stabilising.

Wal-Mart – The world's largest retailer announced that it will create 22,000 jobs this year, in new or expanded US stores. The share price rose by almost 3% over the week.



Europe

Overview

European markets rose by almost 2%, as speculation grew that the worst is over for global economies.

Barclays Bank – The UK bank is currently holding talks with Blackrock Inc. and other bidders to sell its asset management division (Barclays Global Investors).



Ireland

Overview

The Irish market finished the week almost 8% higher, led by banking and resource stocks.

Ireland's credit rating – The ratings agency, Standard & Poor's, announced that it has lowered Ireland's credit rating for the second time in three months, due to the cost of rescuing the country's banking industry. S&P has cut the rating from AA+ to AA and has assigned a "negative" outlook to the grade.



Asia Pacific

Overview

Asian markets followed the rest of the world higher, as investors digested more upbeat economic releases. Chinese stocks rose strongly on signs that the nation's manufacturing sector is strengthening and government stimulus packages are having an effect. China's Purchasing Manager's Index (PMI), a survey of more than 700 manufacturers, stood at 53.1% in May and marks the third consecutive month of expansion. The Australian market rose by 4% after the first quarter GDP report showed a gain of 0.4%, against expectations of a decline of 0.2%.

Rio Tinto Group – The mining company announced that it has scrapped a \$19.5bn investment by Aluminium Corp. of China (Chinalco), and will instead seek to raise \$21bn from a share sale and by selling iron ore assets to BHP Billiton.

Bonds

Bond markets fell back last week, as equity markets rallied and ahead of significant new US supply this week. The weaker GDP forecasts from the ECB did not have any positive impact on eurozone markets. The Merrill Lynch over 5 year government bond index fell by 0.9%.

Global Outlook

- Amidst the deepest global recession in decades, and a virtual freefall in certain economies, the more recent data has stabilised and investor focus has been on green shoots in the global economic data. The hope is that an inventory rebound will help growth in the short term, and that policy action will put a more lasting floor under activity in the medium term.
- The scale and scope of policy initiatives to save the banking system and offset the collapse in private sector demand have been unprecedented, from fiscal expansion to interest rates cuts, to quantitative easing (QE) programs, to measures aimed at removing assets from the banking system. The ultimate success of these efforts – or their unintended consequences – is still far from certain, however, given the depth of the crisis faced by the global economic system.
- Short rates have likely reached their cyclical lows in the major economies – at somewhere between 0% and 1% – and the question is how long short rates will be maintained. The success of the US and UK QE programs has been quite mixed so far, and it remains to be seen how committed the ECB will be to its corporate bond-buying program. In any event, the major central banks are already talking about exit strategies from these initiatives, suggesting a tepid level of commitment to their implementation.
- Bonds have performed quite badly, as investors have re-embraced risk assets and authorities have disappointed with their QE policies, with many commentators also speculating on the long-term inflation risks from the current policy mix. Peripheral bond markets, such as Spain and Ireland, have been helped by "solidarity" expressions from the EU and ECB and a more positive attitude towards risk assets. Periodic concerns about the budgetary positions could easily impact on these spreads again, although it seems that the political commitment to containing this issue has strengthened in recent weeks. At least in the short term, bond markets in general have probably reached a trough.
- Economic green shoots, combined with large short positions and pessimistic sentiment, produced a powerful bear market rally in equity markets over the past three months. The stress test of the US banks was choreographed very well, allowing a number of banks to raise new capital or announce their expectation of doing so; corporate debt markets have also been more supportive to equity markets. Most participants seem to expect consolidation, with small pullbacks, before further price gains. However, with market sentiment having swung from one extreme to another in this large rally, there must be room for disappointment with policy initiatives and the possibility of setbacks in risk markets.
- Currently, the funds are close to neutral in equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight healthcare and utilities. Geographically, the funds have an underweight position in Ireland and the US, are closer to neutral in Japan, the UK and Europe, and are overweight in the Pacific Basin.

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.