Eagle Star Investments

Weekly News **29th March 2010**

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Global Overview

Markets move higher
Equity markets moved higher last week as the outlook for corporate profits improved, an aid package for Greece was agreed upon and US GDP data for Q4 confirmed a strong quarter.

US economic data
The final economic growth figure for Q4 2009 was revised slightly downward, on Friday, to an annual rate of 5.6%. This expansion was slightly lower than what analysts had expected. The market got a boost though when data released showed that first-time jobless claims and the amount of people receiving unemployment assistance both decreased.

Greek aid
The euro got a boost on Friday after the 16-nations that use the currency endorsed a plan that will see a mix of the International Monetary Fund and bilateral loans being used to aid Greece, if required.

Geely acquisition from Ford
Over the weekend, Chinese automotive manufacturer Geely agreed to buy Volvo from Ford Motors in a $1.8bn deal. The deal was reached 18 months after first entering negotiations and is the biggest-ever overseas acquisition by a Chinese automaker.

Currencies
The US dollar gained against most currencies as investors moved towards its relative safety due to uncertainty surrounding how Greece would receive financial aid. The €/$ rate dropped 1.1% to finish slightly below 1.34. The dollar is heading for its best quarterly gain against the euro since the height of the crisis in Q3 2008.

	Index	Year to Date Return 31.12.09 to 26.03.10		1 Week Return 19.03.10 to 26.03.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.2	9.7	0.8	1.2
US	S&P 500	4.6	12.0	0.6	1.7
US	NASDAQ	5.6	13.0	0.9	2.0
Europe	FT/S&P Europe Ex. U.K.	3.4	3.4	1.3	1.3
Ireland	ISEQ	8.0	8.0	2.8	2.8
UK	FTSE 100	5.4	4.0	0.9	1.1
Japan	Topix	6.5	14.7	1.9	0.6
Hong Kong	Hang Seng	-3.7	2.9	-1.5	-0.4
Australia	S&P/ASX 200	0.5	7.9	0.5	-0.1
Bonds	Merrill Lynch Euro over 5 year Govt.	2.6	2.6	0.1	0.1

Global Equities

United States

Overview
US markets rose for the fourth week running as the economy continues to show expansion and corporate profits beat expectations, helping consumer sentiment data to improve.

Lennar – Shares in the US homebuilder rose by 14% over the week, after it announced its quarterly loss narrowed following a cutting of administrative costs and offering incentives to customers, and gave a more upbeat outlook for current trading.

Pharmaceuticals – On the week that President Obama signed the healthcare legislation into law, stocks moved slightly higher. One of the largest companies, Pfizer, gained 1.4%.

Europe

Overview

European stocks gained once again last week. Markets were helped by numerous factors, including US data, commodity price rises and improving corporate profits.

Next – The UK's second-largest retailer saw its share rise by almost 6% after it reported full-year profit that beat expectations.

Mining sector – Copper posted its first weekly gain in three weeks, helping mining sector rally 4% on the week.

Ireland

Overview

The ISEQ was one of the best performing markets last week rising by 2.8%. Bank stocks will be in focus this week as NAMA prepares to publish the discount it is applying to loans which are starting to be transferred from today.

Independent News & Media – Shares in the group rose by 23% from a very depressed level after forecasting increased operating profits for 2010. IN&M also announced it was disposing of its UK titles, The Independent & The Independent on Sunday. This disposal is expected to enhance full year profit.

Asia Pacific

Overview

It was a mixed week for Asian markets as worries surrounding Greece remained to the forefront while investors begin to fear inflation in Asia may derail the current global recovery. The Geely acquisition of Volvo from Ford signals that M&A activity in the region remains strong.

Bonds

Government bonds traded in a range for most of the week as European leaders worked to create a package to aid Greece, if it struggles to improve its debt problems. Its Government are hoping to raise €5bn in the coming days with a new bond issue. The Merrill Lynch over 5 year government bond index finished the week 0.1% higher.

Global Outlook

- Forecasters anticipate that the global economy will grow by 3.2 % in 2010, following a contraction of 2.1% last year, while inflation pressures in the developed economies are set to remain muted. One key question is whether private sector demand in Europe and the US is strong enough to allow some of the massive stimulus to be withdrawn. Equally, it is notable that bank lending is still quite constrained and these factors make policymakers still somewhat cautious on the economic outlook.
- Concerns about the long-term consequences of the credit burst (and the unintended consequences of a myriad of policy actions), only get market attention when equity markets are falling; they have dissipated recently but will likely erupt at some stage again during the year.
- Short rates continue to be held at emergency levels in the major economies, although rates have been increased in economies such as Australia, India and China. Central bankers in Europe and the US are keen to remove emergency policy settings but they don't want to do so prematurely, a subtle message which occasionally makes investors nervous. Despite that, it is notable that end-2010 rate expectations in the US, UK and eurozone have only increased slightly from their cycle lows. On balance, therefore, investors expect that low rates will persist for some time.
- Inflation data, short rates and liquidity conditions continue to support bond markets. The "elephant in the room" remains the exit from emergency policy settings and these concerns help to keep bond markets in a broad trading range, with probably a neutral bias at the moment. However, it has been the fiscal woes in Greece that have been the dominant concern so far this year. The "solution" that has been reached will likely be tested in the short and medium term but Greek bonds should react positively. Meanwhile, it is likely that the longer-term picture for a successful euro will need a more far-reaching set of proposals.
- Global equity markets have reached new highs albeit with only moderate market activity to support the price moves achieved. Risk spreads in credit markets are quite tight with limited room for further gains there. Equity valuations are still reasonable, and we think that liquidity conditions should remain constructive, although we continue to expect the markets to be choppy during the course of the year.
- Currently, the funds are neutral to slightly long in equities and closer to neutral in bond weightings, versus the manager average. Within equity sectors, the funds are reasonably balanced but are still overweight technology. Geographically, the funds are underweight in Ireland, neutral in the UK, Europe and Japan and overweight in the Pacific Basin and the US.

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