Eagle Star Investments

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ZURICH

Global Overview

Most equity markets trade higher

Despite ongoing fears surrounding the eurozone sovereign debt crisis, investors turned their attention to the release of some better-than-expected global economic data and most markets ended the week in positive territory.

US economic data

Latest US consumer confidence numbers reflect improved sentiment among consumers. Conversely, however, sales at US retailers unexpectedly dropped by 1.2% in May.

Chinese export data

China's exports surged by almost 50%, the most in six years, signalling that the economy is withstanding the sovereign debt crisis in Europe.

Central Bank meetings

As expected, the Bank of England left interest rates unchanged at 0.5%. The European Central Bank also left rates steady at 1%, with the ECB signalling further support for banks.

Currencies

Last week, the €/$ fell to a recent low of 1.18 as concerns over eurozone government debt and worries over the pace of the global economic recovery, boosted safe-haven demand for the US currency. However, as the week progressed equity markets stabilised, the euro recovered and the €/$ rate ended the week closer to 1.21, a gain of 0.4% for the week.

Commodities

The oil price ended the week at $74 a barrel, a healthy gain of 3% over the week, on the back of improving US demand. Elsewhere, gold hit an all-time intra-week high of $1,254 per troy ounce.

	Index	Year to Date Return 31.12.09 to 11.06.10		1 Week Return 04.06.10 to 11.06.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-3.4	10.1	0.9	0.7
US	S&P 500	-2.6	15.2	2.0	1.2
US	NASDAQ	-1.7	16.3	0.5	-0.2
Europe	FT/S&P Europe Ex. U.K.	-4.6	-4.6	2.2	2.2
Ireland	ISEQ	2.0	2.0	1.7	1.7
UK	FTSE 100	-4.7	1.8	0.7	0.4
Japan	Topix	-4.5	14.7	-2.7	-3.4
Hong Kong	Hang Seng	-9.1	6.9	0.5	-0.4
Australia	S&P/ASX 200	-7.5	3.4	1.3	3.2
Bonds	Merrill Lynch Euro over 5 year Govt.	3.9	3.9	0.8	0.8

Global Equities

United States

Overview

US markets pared losses last week, on the back of record Chinese export numbers and upbeat corporate earnings. In his latest testimony, Federal Reserve Chairman Ben Bernanke remained upbeat about the economic recovery and the S&P 500 Index gained 2% over the week, its largest weekly advance since March.

National Semiconductor Corp – The chipmaker reported better-than-expected quarterly earnings, with increased demand from customers in all regions, particularly Europe.

Raw Material Sector – Alcoa and Dow Chemical helped lead raw-material producers higher, as recent reports from China raised hopes for the global economy.

Europe

Overview

Better global growth forecasts, along with upbeat US economic data, helped offset lingering eurozone debt worries. As a result, European markets ended the week 2% higher.

BP – Despite BP's chief of staff Steve Westwell's estimation, that the total clean-up and containment costs would come in between $3 billion and $6 billion being well-received, shares at the oil company fell by 10% last week.

Volkswagen – Europe's largest carmaker reported that car sales rose by 8.6% in May, helped by growing demand in China and the US.

Ireland

Overview

The Irish market followed the rest of the world higher, benefiting from China's confirmation of strong export numbers, to end the week above the 3,000 level, a 2% gain.

Bank of Ireland – The bank's €1.7 billion rights issue was well-received with almost 95% being taken up. The bank's shares gained 5% over the week.

Asia Pacific

Overview

Despite the release of robust economic data from the region, such as Chinese export numbers, last week proved mixed for Asian markets.

Bonds

Despite lacklustre US retail sales figures highlighting the fragility of risk appetite, investors moved away from safer assets towards risky equity markets on the back of record Chinese export figures. Peripheral European bond markets rallied strongly last week with Italy, in particular, performing well. The Merrill Lynch over 5 year government bond index gained 0.8% over the week.

Global Outlook

- Most forecasters anticipate that the global economy will expand by around 3.3% this year, although financial market volatility may jeopardise this somewhat. Inflation pressures globally should remain modest, reflecting weaker data in the US, Europe and Japan and offsetting strength in emerging economies and Asia. A key issue is whether the private sector in Europe and the US can grow without continued massive government stimulus. Doubts about this, plus constrained bank lending, make central banks still cautious on the economic outlook.
- Sovereign creditworthiness, concerns about the long-term consequences of the credit burst, and the unintended consequences of a myriad of policy actions are once more centre stage after the Greek debt contagion.
- Short rates continue to be set at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Australia, India and China. It is now clear that developments in European peripheral bond markets will temper the timing of policy changes across the globe, not just in the eurozone. It is notable that end-2011 rate expectations remain close to new cycle lows in the US, UK and eurozone. Investors expect that low rates will persist for some time.
- Inflation data, short rates, liquidity conditions and risk aversion continue to be of general support to the major bond markets. German and US bond markets continue to benefit from a flight away from peripheral markets and discussions about "disinflation", with the collapse in the functioning of the European peripheral bond markets refocusing minds on the many implications of highly-indebted countries. ECB bond purchases have had limited success so far and the longer-term success of the euro project will need a more far-reaching set of proposals than we have seen to date. Peripheral bond market spreads remain wide; the situation is still very delicate and investor conviction is low.
- The decline in global equities so far this year masks very substantial volatility, three 8%+ falls and one 14% recovery. One result of the latest fall is that policy will remain easier for longer, especially in Europe, and this gives some forward support to risk markets. Equally, it is notable that after a 20% fall in Chinese equity prices this year, policymakers' rhetoric is becoming more moderate. However, in most markets, nervousness is still the order of the day with investors focusing on downside risks to forward economic data and corporate earnings. Further volatility and falls are quite possible in the near-term, before opportunities emerge, because investors fear a lack of co-ordination at the global policy level. However poorly it is being done at the moment, we should not discount the determination of policymakers to offset risk aversion in equity and credit markets.
- Currently, the funds remain underweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are reasonably balanced, with a reduced, but still overweight position in technology. Geographically, the funds are underweight in Ireland, the UK, the US and Europe, and are neutral in Japan and the Pacific Basin.

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