Eagle Star Investments

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ZURICH

Global Overview

Strong week for equities

Equity markets rebounded strongly last week, as economic data picked up once again and soothed investors' fears, while the earnings season kicked off with some pleasantly surprising results.

US data shows renewed strength

First-time jobless claims reduced to their lowest level since last January, and the ISM data showed the services industry returned to growth after eleven months of contraction. Another encouraging sign was the rise in exports to their highest level of the year, resulting in the unexpected narrowing of the trade balance.

Eurozone data

Investors' expectations of a return to economic growth in Q3 were given a boost when data released showed that French and Italian industrial output surged in August. Government incentives to revive the auto industry were the main contributors to this improvement.

The dollar

After gaining for the past three weeks, the dollar weakened against the euro as calls for a strong US dollar, by main central banks over the past few weeks, failed to reassure investors. Investors also shifted funds towards the higher-yielding Australian dollar. The €/$ rate finished the week at 1.47, a gain of almost 1%.

Commodities

Oil climbed to its highest close in a month, after improving economic conditions led the International Energy Agency to increase its global consumption forecast for the third successive month. Oil finished the week just below $72 a barrel.

	Index	Year to Date Return 31.12.08 to 09.10.09		1 Week Return 02.10.09 to 09.10.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	18.6	12.6	4.5	3.7
US	NASDAQ	35.7	28.7	4.5	3.7
Europe	FT/S&P Europe Ex. U.K.	22.4	22.4	4.1	4.1
Ireland	ISEQ	42.8	42.8	3.6	3.6
UK	FTSE 100	16.4	20.2	3.5	2.5
Japan	Topix	4.5	0.3	2.6	1.8
Hong Kong	Hang Seng	49.4	41.8	5.5	4.7
Australia	S&P/ASX 200	27.7	55.2	3.3	6.9
Bonds	Merrill Lynch Euro over 5 year Govt.	4.5	4.5	-0.2	-0.2

Global Equities

United States

Overview

Better-than-expected economic reports, along with some surprise results at the start of the earnings season in the US, led markets to their strongest week in three months, reaching highs not seen since this time last year.

Alcoa – The aluminium producer kicked off earnings season with an unexpected return to profit, helping the outlook for many resource stocks. Cuts in raw material costs and jobs were the main factors in this improvement. Its share finished the week 11% higher.

Europe

Overview

European stocks gained on the back of better earnings and economic data worldwide. The ECB also held rates unchanged at 1% when it met during the week.

Basic resources – The basic resource sector was the best-performing sector over the week, as metals, including copper and nickel, rallied while gold climbed to a new record.

DnB NOR – The Norwegian Bank gained 16% on the week, on rising optimism for the Norwegian economy and the bank's earnings prospects post its capital increase.

Ireland

Overview

The ISEQ returned a positive 3.6% over the week, with DCC, CRH and Grafton Group amongst the best performers.

C&C – The drinks company announced its first-half profit fell by 9.9%, as economic conditions weakened, and said trading conditions were "more challenging" over the past few months. The company has already cut prices and introduced new drinks as part of a bid to revive revenue. Shares finished the week 4% lower.

Asia Pacific

Overview

Asian stocks gained following further signs that the economic recovery is still progressing, with the services data in the US providing the main boost to exporters. Improving economic data in the region was behind the Australian central bank's decision to raise interest rates by 0.25%. Signs of growth have re-emerged in the country, as mining, and many other sectors, have shown marked improvement over the past months.

Bonds

Bonds finished the week slightly lower, following a surge in industrial output in the eurozone region and investor concern about the Federal Reserve's exit strategies. The latter idea has been rejected by many commentators, though. The Merrill Lynch over 5 year government bond index fell by 0.2%.

Global Outlook

- Economic data has improved with the IMF now anticipating positive growth of 3.1% in 2010, after an expected fall of 1.1% this year. The strains within the financial system have eased considerably, although bank lending is still impaired; partly for this reason, policymakers remain slightly cautious on the economic outlook. Trade tensions are not yet a major issue but, as with the recent spat between the US and China, they are worth watching for any economic or market impact.
- Analysts attribute much of the economic improvement to the scale and scope of policy initiatives to rescue the banking system and offset the collapse in private sector demand. The ultimate success of these efforts (or their unintended consequences) remains uncertain, given the size of the global crisis that they are seeking to redress.
- Short rates continue to hover between 0% and 1% in the major economies, with central banks continuing to pursue a nuanced policy. They want to keep rates sufficiently low to foster recovery but also want to exit from emergency policy settings as quickly as conditions permit. The recent rate increase in Australia has made investors slightly more nervous, but "lower-for-longer" is still the dominant theme among investors in the US, UK and eurozone.
- Inflation is still generally supportive to bond markets, which have also benefited from the same positive liquidity backdrop that has helped other assets. The "elephant in the room" remains the exit from emergency policy settings, which is bound to have some impact on bond markets, just as the Fed's "dry-run" of liquidity withdrawal did last week. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively helped by a generally-supportive backdrop for risk.
- Global equity markets had another small correction from the recent high but have regained that loss again, in what historically can be a tricky seasonal spell for equity markets. Valuations are rich rather than cheap at this stage, but markets have continued to grind out recoveries from any dips. The balance of overall sentiment has turned slightly positive again, as investors begin to digest Q3 earnings.
- Currently, the funds are neutral to overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight utilities. Geographically, the funds have an underweight position in Ireland, the US and Japan, are closer to neutral in the UK and are overweight in the Pacific Basin and in Europe.

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