

Eagle Star Investments

Weekly News

6th April 2009

Global Overview

Equity markets gain strongly

Global equity markets rose sharply last week, as a commitment by the G20 group of global leaders in London to raise funds available to the International Monetary Fund to \$1,100bn, an undertaking to clean-up the financial services industry and a determination to kick-start global trade, all lifted investor sentiment.

US data

The US Institute for Supply Management's index of manufacturing activity rose to 36.3 in March, from 35.8, and although still indicating a contraction, was slightly above expectations. This improvement raised hopes that fiscal and monetary initiatives are beginning to take effect. Elsewhere, non-farm payrolls data revealed that 663,000 jobs were lost in March.

European economic data

The European Central Bank lowered its key interest rate by 25 basis points, to 1.25%, confounding expectations of a 50 basis point move. Jean-Claude Trichet, ECB President, noted that the Central Bank would make a decision on whether to extend its use of "non-standard" measures to boost the economy at its next meeting.

Oil & dollar

The oil price retreated to just under \$48 a barrel mid-week, following news of a rise in stock-piles and a fall in Japanese energy consumption. However, it finished the week just above \$52, buoyed by expectations that wealthy nations' efforts to stimulate their economies may help end the downturn sooner than expected. The €/£ ended a volatile week 1% higher at 1.34, aided by the smaller-than-expected ECB rate cut, and greater risk appetite amongst investors.

Index	Year to Date Return 31.12.08 to 03.04.09		1 Week Return 27.03.09 to 03.04.09		
	Local Currency %	Euro %	Local Currency %	Euro %	
US	S&P 500	-6.7	-3.2	3.3	2.2
US	NASDAQ	2.8	6.8	5.0	3.9
Europe	FT/S&P Europe Ex. U.K.	-7.8	-7.8	4.5	4.5
Ireland	ISEQ	-0.6	-0.6	7.6	7.6
UK	FTSE 100	-9.1	-4.1	3.4	6.1
Japan	Topix	-3.2	-8.8	0.8	-2.2
Hong Kong	Hang Seng	1.1	4.9	3.0	1.9
Australia	S&P/ASX 200	0.4	5.0	1.7	3.5
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.1	-1.1	-0.8	-0.8

Global Equities



United States

Overview

US equity markets stayed on course for their fourth consecutive week of gains, something not seen since the market peaked in October 2007. News that the US Financial Accounting Standards Board is relaxing mark-to-market accounting rules, which should boost quarterly corporate profits, improved the mood in equity markets.

IBM – The share price of IBM rose by over \$8 to around \$102 last week, after reports that takeover negotiations with Sun Microsystems, which would make it the biggest technology deal of the year, were close to being complete. However, by Monday 6th April, the share prices for both companies fell lower after news that the talks have collapsed.



Europe

Overview

European markets followed the rest of the world higher, as hopes for an economic recovery delivered renewed optimism to all sectors.



Ireland

Overview

The Irish market finished the week over 7% higher with Bank of Ireland (62%), Allied Irish Banks (60%) and Irish Life & Permanent (59%) all leading the way, as the market anticipated details of the Government's announcement regarding the approach to be taken re banks' "bad" loans, to be delivered with the budget.

Elan – The pharmaceutical company gave back some of last week's gains, falling by 7%, after news that no takeover offer has been received, as of yet.



Asia Pacific

Overview

Asian markets followed the rest of the world higher in anticipation of the G20 agreement and the Hang Seng ended the week up 3%.

Bonds

Bond markets fell back last week as equity markets rallied. Eurozone government bonds sold off after disappointment that the ECB did not cut interest rates by the 50bps that had been expected, and also that ECB President, Jean-Claude Trichet, had not provided details on quantitative easing measures. The Merrill Lynch over 5 year Government bond index fell 0.8%.

Global Outlook

- Amidst a severe global recession, investors have seized upon some tentative green shoots in US and Asian (ex Japan) economic data and have also been heartened by the efforts of the G20. Meanwhile, in the eurozone and Japan the data remains awful, underlining those countries' reliance on export markets and the collapse in world trade.
- Policy activity continues unabated, ranging from fiscal expansion to quantitative easing (QE) programs, to measures aimed at removing assets from the banking system and encouraging new lending. The scale of these initiatives has been huge, but the ultimate success of these efforts is still far from assured, given the depth of the crisis faced by the global economic system.
- While 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, but the determination of the authorities in this regard is still unclear. The ECB once again disappointed last week and we will have to wait until the May meeting for details of further unconventional measures – possibly including QE measures – and a likely move to 1% short rates.
- 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. In the meantime, peripheral bond markets such as Spain and Ireland have benefited from "solidarity" expressions from the EU and ECB and a slightly more positive attitude towards risk assets.
- Equity markets have performed strongly in the past four weeks due to short covering and greater appetite for risk taking. While the intent of policy makers to support the global economic system makes investors think that we have already seen the lows, there is still ample scope for policy disappointment and setbacks. However, in the meantime, many of the indices have cleared hurdles that suggest fresh price gains may be in the offing. So far, this is a classic bear market rally within a severe bear market but, even so, historically such bear market rallies can be quite large.
- Currently, the funds are slightly 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 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.

