

Eagle Star Investments

Weekly News

20th April 2009

Global Overview

Equity markets extend run to six weeks

Equity markets recorded their sixth straight week of gains, as earnings surprised to the upside and investors focused on more positive economic data. With many bellwether stocks to report this week, investors are still wary that the economy will show signs of further weakness.

US data improves

Last week, investors got further indications of stabilisation, as speculation grew that the housing market may have troughed, while new jobless claims dropped to their lowest level since late January. Worryingly though, after a strong recovery recently, retail sales slumped once again.

European Central Bank

President of the ECB, Jean-Claude Trichet, gave investors hope of another "very measured" rate cut, but ruled out the possibility of lowering rates to zero. ECB committee members seem to be divided as to its next move.

Oil

Although prices began to creep above \$50 per-barrel towards the end of the week, concern about the high level of inventories is still weighing on the market.

Index		Year to Date Return 31.12.08 to 17.04.09		1 Week Return 10.04.09 to 17.04.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-3.7	3.0	1.5	2.3
US	NASDAQ	6.1	13.5	1.2	2.0
Europe	FT/S&P Europe Ex. U.K.	-2.1	-2.1	4.5	4.5
Ireland	ISEQ	4.5	4.5	3.2	3.2
UK	FTSE 100	-7.7	0.1	2.7	4.6
Japan	Topix	-1.6	-3.6	0.0	1.9
Hong Kong	Hang Seng	8.4	16.0	4.7	5.5
Australia	S&P/ASX 200	1.5	10.9	2.9	3.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.8	-0.8	0.4	0.4

Global Equities



United States

Overview

Signs of stabilisation of the world's largest economy, along with strength amongst the leading financial institutions, helped markets move higher over the week.

Goldman Sachs – In the first quarter of the year, the investment bank saw trading revenue outweigh asset writedowns, resulting in it posting earnings that well exceeded analysts' expectations. It was its first gain in four quarters.

General Motors – The troubled automaker saw its shares finish the week almost 9% lower, after its CEO, Fritz Henderson, warned that the automaker will likely have to file for bankruptcy protection. However, the company still favours the restructuring option rather than bankruptcy.



Europe

Overview

European markets rose for the sixth consecutive week, as speculation grew that the worst is over for global economies. It is the longest stretch of gains since early 2006.

Nokia – Despite posting a 90% drop in net profit, shares in the world's largest mobile phone maker rose by 10% after it reassured pessimistic investors it could meet its year-end profitability forecast.



Ireland

Overview

The Irish market finished the week 3% higher, as CRH and Ryanair gained strongly.

CRH – The cement giant, which makes up over a third of the ISEQ index, saw its share price rise by almost 3%, as global construction stocks gained momentum on hopes of a recovery in the US housing market.



Asia Pacific

Overview

Asian markets followed the rest of the world higher as economic data in the US and the effects of the Chinese stimulus plan point to an improvement in world economies.

China – According to Premier Wen, China's \$858 billion stimulus plan is already showing better-than-expected results and helping restore market confidence. The Chinese economy grew at a rate of 6.1% in the first quarter.

Bonds

Bond markets gained during the week after the President of the ECB gave an indication that it may cut rates again, but stated it would be "very measured". Some ECB committee members stated that rates could go below 1%. The Merrill Lynch over 5 year government bond index rose 0.4%.

Global Outlook

- Amidst a severe global recession and strong deflationary forces (the US just reported its first negative inflation rate for 55 years), investors are firmly focused on the tentative green shoots in global economic data. Although end-user demand remains weak, companies have cut back production quite severely. Any stabilisation in the latter process could provide a short-term boost to growth.
- 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.
- US short rates have already reached their cyclical lows at 0.25% but will remain there for some time. Meanwhile, the ECB is split with regard to further measures. At the moment, investors expect a cut to 1% at its May 7th meeting and an announcement of further measures to give long-term liquidity to the banking system. While the US has a QE policy which is meant to keep long-term rates lower for some time, the ECB is so far very reluctant to go down that route.
- 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 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 few weeks due to short covering and greater appetite for risk taking. Recent comments from some US financial companies about early repayments of government assistance have also helped sentiment. While the intent of policy makers to support the global economic system makes investors think that we have already seen the equity market 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 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 financials & technology and underweight utilities. Geographically, the funds have an underweight position in Ireland, are closer to neutral in Japan, the US and Europe, and are 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.