

Eagle Star Investments

Weekly News

27th April 2009

Global Overview

Equity markets pause for breath

Most equity markets broke their six-week run, as worries grew that credit losses in the banking sector are worsening ahead of the outcome of the stress tests, while earnings and economic data were mixed.

UK GDP data

The Treasury is expecting a full-year decline of 3.5% and a budget deficit of 12.4% of gross domestic product, the highest among the G20 nations. Actual data for the last three months of 2008 showed that the UK's economy contracted by 1.9%, suggesting that the Treasury's forecasts are somewhat optimistic.

European Central Bank

The IMF painted a gloomy outlook for some of the world's largest economies, most notably the US. It expects the economy to shrink by 2.8% this year and have no growth in 2010, resulting in unemployment of over 10%.

Oil & gold

Oil prices hovered around the \$50 per-barrel mark for most of the week, as demand weakness and rising crude stocks keep them from benefiting from the tentative signs of economic stabilisation. Gold received renewed support after China announced that it had added to its holdings of bullion. It has increased its reserves by 75% since 2003.

Index		Year to Date Return 31.12.08 to 24.04.09		1 Week Return 17.04.09 to 24.04.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-4.1	0.8	-0.4	-2.1
US	NASDAQ	7.4	12.9	1.3	-0.5
Europe	FT/S&P Europe Ex. U.K.	-2.3	-2.3	-0.2	-0.2
Ireland	ISEQ	3.3	3.3	-1.2	-1.2
UK	FTSE 100	-6.3	-0.7	1.5	-0.8
Japan	Topix	-3.4	-5.0	-1.8	-1.4
Hong Kong	Hang Seng	6.1	11.5	-2.2	-3.9
Australia	S&P/ASX 200	-0.3	7.4	-1.7	-3.2
Bonds	Merrill Lynch Euro over 5 year Govt.	0.2	0.2	1.1	1.1

Global Equities



United States

Overview

It was a mixed week for US equities. The focus turned on banking stocks, as the US stress-test accounting may raise required capital levels. Meanwhile, more positive earnings results were augmented by less weak durable goods and housing data.

Earnings – Sentiment towards many sectors got a boost last week as Amazon, Microsoft, American Express and Ford all reported earnings that topped forecasts, albeit based on very low estimates due to credit constraints and a weak economy.

Sun Microsystems – It was another positive week for the Nasdaq, thanks mainly to Sun Microsystems. The IT company, which was recently the subject of a bid from IBM, surged following news of a takeover bid from Oracle. Sun finished the week over 37% higher.



Europe

Overview

European markets retreated for the first time in seven weeks, as disappointing earnings results sparked concern that the worst may not yet be over, overshadowing an improvement in German business confidence.

Akzo Nobel – The Dutch manufacturing company reported a first-quarter loss of €7 million, compared with a profit of €105 million just a year ago. Analysts had predicted a profit of almost €50 million, causing its share price to fall by over 5%.

GlaxoSmithKline – The UK's largest drug manufacturer reported earnings that were weaker than the market expected. With further risks to the downside, its share price retreated by almost 3%.



Ireland

Overview

After its recent strong rally, the Irish market finished the week lower, as some of the largest companies including Icon, Elan and CRH fell.

Elan – There were few surprises in Elan's Q1 results, but with further data upcoming on Bapineuzumab's safety & efficiency and a strategic process that is ongoing, investors will remain vigilant. It retreated by 5% over the week.



Asia Pacific

Overview

Asian markets took a breather from their strong start to the year, as earnings results soured investors hopes that the global economy is recovering.

China Mobile – China Mobile, the world's largest wireless carrier, sank by over 6% after first-quarter profit grew at the slowest rate in five years. It was one of a number of carriers who reported poor results during the week.

Bonds

Bond markets gained during the week, as equity markets took a pause and investors await the next move from the ECB. Committee members have already signalled that some new measures may be introduced at its upcoming meeting on May 7th. The Merrill Lynch over 5 year government bond index rose 1.1%.

Global Outlook

- Amidst a severe global recession and a collapse in world trade, investors have been focused on some tentative green shoots in global economic data. There is also some hope that there could be an inventory re-build that might help growth in the short term. This arises because companies have cut back production even more severely than justified by weak end-user demand.
- 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. Meanwhile, the commitment of the authorities to their QE programs is still open to debate but should become clearer as government debt issuance rises in the coming weeks and months. The ECB is still dithering on its next moves, with open disagreement among decision makers. Rates will likely be cut to 1% next month, but thereafter the position is unclear.
- 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. Peripheral bond markets, such as Spain and Ireland, have been helped by "solidarity" expressions from the EU and ECB and a slightly more positive attitude towards risk assets. Some short-term profit taking on these moves could easily occur, of course.
- Equity markets have performed strongly in the past few weeks due to short-covering, greater appetite for risk-taking and apparently better company results. Despite the intent of policymakers to support the global economic system, there is ample scope for policy disappointment and setbacks in risk markets. The stress test of banks in the US is an immediate focus for equity markets, for instance. So far, this is a classic rally within a severe bear market. Historically, such bear market rallies can be quite large; however, profit-taking and volatility are still likely to persist.
- 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.

