

Eagle Star Investments

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Global Overview

Global equity markets gain strongly

As corporate earnings season kicked off in the US, global equity markets enjoyed a week of healthy gains with investors digesting encouraging earnings announcements. Concerns that the US commercial lender, CIT, would not receive a federal bail-out resulted in some intra-week volatility. However, minutes from the June Federal Reserve meeting, along with better-than-expected data releases, boosted risk appetite for both equities and commodities.

US economic data/indicators

The minutes from the Federal Reserve's June meeting noted that the US economy is on track for a recovery later on in the year. Elsewhere, US housing starts unexpectedly rose by 3.6% in June, providing some evidence that the housing market is stabilising.

European economic data

Eurozone inflation numbers confirmed that consumer prices fell by 0.1% in June compared to a year ago, making it less likely that the ECB will begin raising interest rates anytime soon. The ZEW German investor confidence indicator posted a surprise drop in July, suggesting that a recovery in Europe's largest economy could take longer to materialise.

Oil and currencies

The stronger tone in equity markets, along with a weaker dollar, evidence of strengthening activity in China and better-than-expected US corporate earnings, pushed commodity prices higher last week. The oil price climbed 6% over the week, finishing above \$63 a barrel. In currency markets, the €/£ rate ended the week at 1.41, as dollar appeal diminished in response to higher equity and commodity prices.

	Index	Year to Date Return 31.12.08 to 17.07.09		1 Week Return 10.07.09 to 17.07.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	4.1	2.8	7.0	5.6
US	NASDAQ	19.6	18.1	7.4	6.1
Europe	FT/S&P Europe Ex. U.K.	3.9	3.9	7.4	7.4
Ireland	ISEQ	15.3	15.3	5.0	5.0
UK	FTSE 100	-1.0	9.5	6.3	6.0
Japan	Topix	2.2	-2.6	0.7	-2.4
Hong Kong	Hang Seng	30.7	29.1	6.2	4.9
Australia	S&P/ASX 200	7.5	20.7	5.4	7.4
Bonds	Merrill Lynch Euro over 5 year Govt.	0.6	0.6	-0.4	-0.4

Global Equities



United States

Overview

US equity markets rose after upbeat earnings (Goldman Sachs, JP Morgan Chase, Intel, IBM, Johnson & Johnson) combined with better-than-expected economic releases, fuelled demand for riskier assets.

Goldman Sachs – The investment company kicked off the reporting season for financials, announcing that second-quarter profit exceeded analysts' estimates, with record trading and stock underwriting leading it to its highest quarterly profit. Net income in the three months ending June 26th was \$3.44bn.

JP Morgan Chase – The US bank reported a better-than-expected second-quarter net profit figure of \$2.7bn, a 36% increase over the same period last year due to increased investment banking fees.



Europe

Overview

Despite some weak economic data, European markets gained 7% as upbeat second-quarter earnings results brought renewed optimism to all sectors.

Philips – The Dutch electronics group posted a better-than-expected net profit of €45m for the second-quarter, down from €735m in the same period a year earlier. The company also provided a cautiously optimistic assessment for the remainder of the year, citing a cost-cutting programme which includes the loss of 6,000 jobs.



Ireland

Overview

The ISEQ finished the week up 5%, with Bank of Ireland and AIB the largest gainers.

DCC – The industrials company reported that first-quarter operating profits to 30th June were ahead of budget. At its AGM, it reported that it expects profits for the 12 months to March 2010 to be between 5% – 10% lower than the previous year's results, with weak sterling translating into a lower euro earnings figure.



Asia Pacific

Overview

Good sentiment towards equities continued in Asian markets, helping them to another positive week. Both the Topix and Hang Seng indices gained by almost 1% and 6% respectively. Chinese GDP exceeded analysts' expectations, recording an impressive 7.9% in the second-quarter of the year, up from 6.1% in the first-quarter. China's industrial output expanded by 10.7% in June, up from 8.9% in May, providing evidence that government stimulus packages are taking effect.

Bonds

Bond markets fell last week as well-received US corporate earnings results triggered profit-taking in bond markets. The Merrill Lynch over 5 year government bond index fell by 0.4%.

Global Outlook

- Economic data has stabilised after being in freefall earlier this year. GDP forecasts have likewise stopped falling and are currently being revised higher. Signs of less stress in the financial system have bolstered this process although, outside of China, bank lending is moribund. China's positive growth story definitely helps sentiment although it is not really helping the rest of the world, while Asia's growth is still dependent on exports to a weakened US consumer sector.
- The scale and scope of policy initiatives to save the banking system and offset the collapse in private sector demand have been unprecedented. Because of the scale of the global crisis, the ultimate success of these efforts - or their unintended consequences - is still far from certain. Put another way, whether the outlook is inflationary or deflationary, and which comes first, remains an open question.
- Short rates have likely reached their cyclical lows in the major economies, at somewhere between 0% and 1%. However, investors have recently scaled back thoughts of rates rising in the near term after comments from various central banks. This highlights the bind that major central banks feel they are in (trying to keep policy easy), while talking about exit strategies from their various initiatives, including their partially successful quantitative easing (QE) policies. Witness the recent comments from the Bank of England on the latter point, which feels that its buying of bonds has been hijacked by profligate government borrowing.
- It looked like bonds were in a more constructive phase but that is more questionable now. Although many commentators continue to speculate on the long-term inflation risks from the current policy mix, inflation indicators are still pointing downwards. In the eurozone, peripheral bond markets, such as Ireland, have been helped by "solidarity" expressions from the EU and ECB and somewhat improved funding positions, although budgetary concerns are still evident. The near-term outlook will be determined by how risk assets behave following last week's strong rebound in equities.
- After the 'green shoots' surge in equity markets, their more recent performance had been soggy. However, that was decisively reversed last week with the reaction to earnings' numbers and new highs in China's equity indices. Investors will now be focused on whether developed markets will break through recent highs and gain further.
- Currently, the funds are neutral in equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight industrials. Geographically, the funds have an underweight position in Ireland and the US, are closer to neutral in Japan, the UK and Europe, and are overweight in the Pacific Basin.

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.