Eagle Star Investments

Weekly News 10th August 2009

Global Overview

Equity markets extend gain with late rally

Equity markets traded in a range for most of the week, before rallying on Friday after investors got a further signal that the US economy is improving with the release of the latest employment situation.

US employment data

Data released for July showed that the unemployment rate had dropped for the first time in more than a year, after payrolls fell by an expectation-beating 247,000 in July, following a 443,000 drop in June. The unemployment rate declined to 9.4%, from 9.5%. Investors had traded cautiously all week in anticipation of the numbers.

Central bank meetings

The ECB held rates at a record low of 1% when it met last week. Jean-Claude Trichet gave a slightly more upbeat outlook for the economy when he said that some economic signs are “clearly less negative” and that inflation may turn positive as the year progresses. The Bank of England also held rates constant, but moved to further stimulate the economy by adding another £50bn to its asset purchase plan. It has now committed £175bn to the plan.

Oil and currencies

The oil price rose early in the week due to the effect of a weakening dollar. The dollar, however, rallied on Friday following the publication of the latest jobs data, causing the oil price to retreat back to $71 a barrel. The unexpected drop in the unemployment rate helped boost the dollar’s appeal and the €/$ rate ended the week relatively unchanged at just below 1.42.

	Index	Year to Date Return 31.12.08 to 07.08.09		1 Week Return 31.07.09 to 07.08.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	11.9	10.1	2.3	2.8
US	NASDAQ	26.8	24.8	1.1	1.5
Europe	FT/S&P Europe Ex. U.K.	13.7	13.7	2.2	2.2
Ireland	ISEQ	23.0	23.0	3.2	3.2
UK	FTSE 100	6.7	20.2	2.7	3.1
Japan	Topix	11.3	1.9	0.7	-1.9
Hong Kong	Hang Seng	41.6	39.4	-1.0	-0.5
Australia	S&P/ASX 200	15.5	35.0	1.3	2.4
Bonds	Merrill Lynch Euro over 5 year Govt.	1.8	1.8	-1.1	-1.1

Global Equities

United States

Overview

US markets pushed upwards again after better-than-expected employment, manufacturing and home sales data boosted investor confidence. Stocks have now gained for four straight weeks.

Banking sector – Following HSBC’s strong quarterly profits, the KBW Bank Index jumped by over 12% as investors raised expectations of higher profits in the sector. Bank of America, Wells Fargo and Citigroup were among the strongest gainers.

Procter & Gamble – The world’s largest maker of household products saw its quarterly profits fall by 18%, as consumers turned away from higher priced skin care and household products. Its share price finished the week 6% lower.

Europe

Overview

European equities gained over the week, after upbeat economic data in the US and strong results from some of the large European banks, such as HSBC, Barclays and Société Générale.

HSBC – Europe's biggest bank climbed 10% after it reported that earnings in its securities unit had more than doubled in the first half of the year. Foreign exchange trading and bond sales led this marked improvement.

Barclays – Barclays Bank saw its shares jump yesterday after it announced that earnings from its investment banking unit had doubled in the first half of the year. Shares rose by over 20% on the week.

Ireland

Overview

The Irish market rose in line with the rest of the world.

AIB – The bank issued a trading statement which was in line with market expectations and did not increase its impairment guidance. This was well received by the market and its shares rose by almost 21%.

Asia Pacific

Overview

Asian markets finished the week relatively unchanged as they had closed before Friday's rally following the surprising jobs data, but caught up today with strong returns overall. Markets also got a boost from China, when the government announced that it would maintain its stance aimed at providing stimulus to the economy as it recovers from the global recession.

Bonds

Eurozone bonds declined over the week as investors shy away from the safe haven status of fixed interest, after the better-than-forecast US jobs data. The Merrill Lynch over 5 year government bond index fell by 1.1%.

Global Outlook

- Economic data has stabilised after being in freefall earlier this year and GDP forecasts are currently being revised higher. Leading indicators of future activity have improved considerably from their worst levels. Signs of less stress in the financial system have bolstered this process, although outside of China, bank lending is moribund and this remains a concern.
- 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.
- Short rates have likely reached their cyclical lows in the major economies, at somewhere between 0% and 1%. The major central banks feel in a quandary, however, trying to keep policy easy while talking about exit strategies from their various initiatives, including their partially successful QE policies. Currently, investors expect modest increases in most short rates early next year.
- Although many commentators continue to speculate on the long-term inflation risks from the current policy mix, current inflation indicators are still pointing downwards. That may continue to provide some support to bonds, although the exit from emergency short rates, whenever that comes, is unlikely to leave bond markets unaffected. In the eurozone, peripheral bond markets, such as Ireland, have seen their spreads over Germany narrow aggressively. This has been helped by considerably improved funding positions, although the scope for further narrowing must be limited at this stage.
- Developed equity markets have embraced recent earnings' data, some better economic data and the surge in China's equity indices, although it's noteworthy that China's equity market now has bubble characteristics. It is noteworthy that final demand in Europe and the US remains weak and that most of the earnings from those regions – outside of financials – have been boosted by cost control; although these caveats are currently secondary to the more bullish sentiment now evident. Technically, the equity markets have broken out of recent ranges and this normally sets the stage for further gains, but markets are now in overbought territory and could easily see some consolidation. Investors will therefore watch near term price action very carefully.
- 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 energy. Geographically, the funds have an underweight position in Ireland and the US, are closer to neutral in Japan and the UK, and are overweight in the Pacific Basin and Europe.

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