Eagle Star Investments
Weekly News 15th March 2010

ZURICH

Global Overview

Markets gain strongly
It was a week that saw the anniversary of the multi-year lows hit in early March 2009 and the start of the technology crash of 2000. Equity markets, though, continued to gain strongly for another week, following improving economic data and further merger & acquisition activity.

Greek proposals
The Greek government detailed €4.8bn of additional cuts in order to reduce its debt towards the EU's 3% of GDP limit. In a show of support, the President of the ECB said that he believes "Greece's plan will win the support of investors and credit-rating companies".

Chinese inflation
Inflation in the world's third-largest economy rose by 2.7% in February over the previous year. Over the same period, exports surged 46%, while industrial output gained the most in over five years.

European industrial output
Data released for January showed that industrial output in the 16-nation region jumped 1.7% from December. This was the biggest increase in more than two years and double analysts' expectations.

Oil price
Having rallied early in the week, poor consumer sentiment data for the second-month running in the US caused the oil price to fall on Friday and finish the week marginally lower. Oil finished at $81 a barrel, a fall of 0.3%.

Currencies
The dollar fell against most trading partners as fears surrounding Greece eased and further economic recovery was signalled in Europe and the US, reducing the demand for safe assets. The €/$ rate gained 1% to finish at 1.375.

	Index	Year to Date Return 31.12.09 to 12.03.10		1 Week Return 05.03.10 to 12.03.10	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	3.1	7.4	1.0	-0.1
US	NASDAQ	4.3	8.7	1.8	0.7
Europe	FT/S&P Europe Ex. U.K.	1.5	1.5	0.8	0.8
Ireland	ISEQ	2.8	2.8	1.5	1.5
UK	FTSE 100	3.9	1.7	0.5	-0.3
Japan	Topix	3.2	10.7	2.8	1.7
Hong Kong	Hang Seng	-3.0	1.0	2.0	1.0
Australia	S&P/ASX 200	-1.1	5.1	1.1	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	2.3	2.3	0.2	0.2

Global Equities

United States

Overview
US markets rose for another week, mainly on the back of the retail sales data. The concern surrounding the jobs market is still weighing on the market, however, and as a result consumer confidence slipped for the second-month running. The S&P Index has now recovered its losses during the second-half of January and is currently at a 17-month high.

Retail sector – Both Home Depot and McDonald's saw their shares move higher over the week. This followed the improving outlook for the economy due to the latest retail sales data and better-than-expected company level sales for McDonald's.

AIG – The insurer rose by 22% over the week after it sold its American Life Insurance Co. to MetLife.

Europe

Overview

European stocks rose for a second week as Greece's economic plans pleased investors and a number of companies provided positive earnings' results.

Volkswagen – Europe's largest car maker announced funding plans for the takeover of Porsche's car making unit. It is going to seek shareholders approval to sell options or bonds which can be converted into preferred stock. Volkswagen and Porsche rose strongly on the week. The company plans to have a capital increase of up to €4bn.

Ireland

Overview

The Irish market was one of the best performers last week as CRH, Grafton Group and Elan all gained.

Grafton Group – The full impact of the collapse in the Irish housing market was demonstrated by Grafton Group's 79% fall in pre-tax profits for 2009. The market reacted favourably to the results and the cautiously optimistic comments from the group's Chairman, helping the stock gain 10% on the week.

Asia Pacific

Overview

Asian markets gained for a third-successive week. Markets started positively following the US jobs data, then added to these gains as investors appetite for risk assets increased following the economic releases. The Topix rose by almost 3% as investors anticipate the Government will raise its economic assessment for the first time in eight months.

Bonds

Bond markets finished the week slightly higher, despite investors move towards risk assets and fears that some European governments may consider debt sales in order to help Greece. The Merrill Lynch over 5 year government bond index finished the week 0.2% higher.

Global Outlook

- On average forecasters expect the global economy to expand by 3% in 2010, following a fall of just over 2% last year. Whether private sector demand in Europe and the US is strong enough to allow governments and central banks to withdraw some of the massive stimulus they have been providing, is a key issue. Equally it is notable that bank lending is still quite constrained and this is a factor that makes policymakers still somewhat cautious on the economic outlook.
- While policymakers and academics continue to grapple with the long-term implications of the credit burst (and the unintended consequences of a myriad of policy actions), market participants work with a shorter time horizon; such longer-term worries tend to be aired only periodically, as in the recent equity market correction.
- Short rates remain at emergency levels in the major economies, although investors are nervous about the withdrawal of such low interest rates, especially when they see rate hikes in economies such as Australia. While central bankers in the US and Europe are keen to remove emergency policy settings, they don't want to do so prematurely, a balancing act which continues to be difficult to communicate. Despite that, it is notable that end-2010 rate expectations in the US, UK and eurozone have only increased slightly from their cycle lows. On balance, therefore, investors expect that low rates will persist for some time.
- Inflation data has remained pretty supportive for bond markets. As was the case for much of last year, the "elephant in the room" remains the exit from emergency policy settings and these concerns help to keep bond markets in a broad trading range; they are probably at the higher end of their price range at the moment with a slightly weaker bias in the near term. However, it has been the fiscal woes in Greece that have been the dominant concern so far this year. Greek spreads have fallen in anticipation of a solution to their fiscal woes. They could easily fall further if this happens but the longer-term picture for the euro will need a more far reaching set of proposals.
- Equity market optimism was dented by an almost 10% correction from early 2010 highs. More worries over a hard landing in China plus fiscal risks in the eurozone have offset strong corporate earnings. However, sentiment swung excessively negatively and set the stage for a recovery as we have witnessed recently. Valuations are reasonable, and we think that liquidity conditions should remain constructive; in the near term markets probably have room to push on a little further from here.
- Currently, the funds are neutral to slightly long in equities and closer to neutral in bond weightings, versus the manager average. Within equity sectors, the funds have gone much closer to neutral but are still overweight technology. Geographically, the funds are underweight in Ireland and Europe, neutral in the UK and Japan and overweight in the Pacific Basin and the US.

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