Eagle Star Investments

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ZURICH

Global Overview

Markets move higher

Equity markets inched higher last week, as fears surrounding Greece eased and the Federal Reserve pledged to keep rates low until economic growth rebounds sufficiently.

US healthcare

On Sunday, the House of Representatives passed a landmark overhaul of the U.S. healthcare system. It approved a bill passed late last year by the Senate and is a key victory for President Obama. It is the most significant social-policy legislation in decades.

Greek credit-rating

Standard & Poors (S&P) said it is no longer planning a downgrade of Greece's debt, as it looks favourably on the country's efforts to rein in its budget deficit. Up to then, the country was on "CreditWatch Negative", suggesting a downgrade was imminent.

India's interest rate

The Reserve Bank of India increased interest rates by 0.25%, to 3.5%, on Friday. This is the first increase in the region, from the emergency lows, but more hikes are expected as the central bank tries to ease inflationary pressures.

Currencies

The dollar gained against most currencies as India raised interest rates, heightening the demand for safer assets. Elsewhere, the euro declined after Greece failed to secure financial aid from the EU as members differ as to how to help the country. The €/$ rate dropped by 1.5% to finish slightly above 1.35.

	Index	Year to Date Return 31.12.09 to 19.03.10		1 Week Return 12.03.10 to 19.03.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.4	8.4	0.7	2.0
US	S&P 500	4.0	10.1	0.9	2.4
US	NASDAQ	4.6	10.7	0.3	1.9
Europe	FT/S&P Europe Ex. U.K.	2.0	2.0	0.5	0.5
Ireland	ISEQ	5.0	5.0	2.2	2.2
UK	FTSE 100	4.4	2.8	0.4	1.1
Japan	Topix	4.6	14.1	1.3	3.0
Hong Kong	Hang Seng	-2.3	3.3	0.8	2.3
Australia	S&P/ASX 200	0.0	8.0	1.1	2.7
Bonds	Merrill Lynch Euro over 5 year Govt.	2.5	2.5	0.1	0.1

Global Equities

United States

Overview

US markets rose for the third week running after the Federal Reserve said it would keep interest rates at the current level until it sees the "whites of the eyes of this economic recovery". The S&P 500 Index reached its highest level since September 2008 midweek.

Intel – Intel saw its share price rally after it released a new line of server chips, stoking optimism that the company can benefit from a rebound in computer demand. It finished the week 3.4% higher.

FedEx – The cargo airline company said quarterly profit more-than-doubled due to increased shipments in Asia and Europe, as the global economy continued to recover from the lows of early 2009. It finished the week almost 6% higher.

Europe

Overview

European stocks rose as S&P said it no longer had imminent plans to downgrade Greece's debt rating, while in the US, the Federal Reserve pledged to keep rates low for an "extended period".

Lloyds – Britain's biggest mortgage lender announced that it may be profitable this year as loan impairments are expected to be better-than-expected. This, along with news that trading has been 'strong' in the first 10 weeks of 2010, helped shares rise by almost 5% on the week.

Ireland

Overview

The Irish market was one of the best performers last week, with banking stocks being the main talking point ahead of the anticipated movement on NAMA transfers in the coming weeks.

Paddy Power – Shares in the company rose by almost 12% last week following the low number of favourites winning at the Cheltenham Festival, the most important race event for bookmakers. Of the 26 races, only four were won by favourites, well below the average of almost nine, pointing to an improvement in forecasted half-yearly profits.

Asia Pacific

Overview

Last Wednesday, the Bank of Japan announced it was doubling the lending programme aimed at stoking credit growth in the region following the Government's move to try and stop deflation hampering the economic recovery. This improved economic growth prospects in the region and helped Asian markets to gain for the fourth successive week.

Bonds

Bond markets were relatively flat last week as uncertainty surrounding Greece's debt problems remained since European Union members differed on how to provide help to the country. The Merrill Lynch over 5 year government bond index finished the week 0.1% higher.

Global Outlook

- Economists expect the global economy to expand by 3.2 % in 2010, following a fall of 2.1% last year, while inflation pressures in the developed economies are set to remain muted. One key question is whether private sector demand in Europe and the US is strong enough to allow some of the massive stimulus to be withdrawn. Equally, it is notable that bank lending remains quite constrained and these factors make policymakers still somewhat cautious on the economic outlook.
- Concerns about the long-term consequences of the credit burst (and the unintended consequences of a myriad of policy actions), only get market attention when equity markets are falling; they have dissipated recently but will likely erupt at some stage again during the year.
- Short rates remain at emergency levels in the major economies, although rates have been increased in economies such as Australia and India, making investors nervous about the withdrawal of low interest rates in Europe and the US. While central bankers in the latter countries 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 and short rates continue to be supportive for bond markets. 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, with probably a neutral bias at the moment. However, it has been the fiscal woes in Greece that have been the dominant concern so far this year. Some "solution" will likely be achieved but Greek spreads continue to be volatile during the negotiations. Meanwhile, it is likely that the longer-term picture for a successful 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. Since then, we have had a 10% recovery and new highs in global equity markets after excess negative sentiment had set the stage for a strong bounce. Valuations are still reasonable, and liquidity conditions should remain constructive for some time to come.
- 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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