Eagle Star Investments

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ZURICH

Global Overview

Equity markets move higher

Global equity markets hit their highest level since mid-2008, helped by better-than-expected US retail sales numbers. However, this optimism was tempered by Greek sovereign debt worries along with speculation that China will allow an appreciation of its currency.

Eurozone members reach agreement on Greece

Over the weekend, leaders of the EU nations reached an agreement on the terms of the bail-out measures for Greece. If requested, eurozone member states are prepared to lend up to €30bn, for deficit-ridden Greece, with the IMF waiting in the wings with an additional €15bn.

Greek credit-rating

Fitch ratings agency downgraded Greek government debt rating from BBB+ to BBB-, with the outlook negative. Borrowing costs for the Greek government hit a cycle high last week.

US economic data

The number of US workers claiming unemployment benefit for the first time, unexpectedly rose. However, US retail sales jumped in March helped by an early Easter holiday.

US Federal Reserve minutes

The minutes from the Federal Reserve's March 16th meeting, showed continued caution for the US economy's prospects, with policymakers indicating they are in no hurry to raise rates.

Currencies & Commodities

In currency markets, the euro traded close to a ten-month low against the dollar. However, hopes of a rescue package for Greece helped trim its losses, and the €/$ rate finished the week largely unchanged at 1.35. Crude oil prices rallied above $87 a barrel, helped by a jump in China's crude oil imports before finishing the week just below the $85 a barrel mark.

	Index	Year to Date Return 31.12.09 to 09.04.10		1 Week Return 02.04.10 to 09.04.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	6.5	12.4	0.9	1.6
US	S&P 500	7.1	14.0	1.4	1.6
US	NASDAQ	8.1	15.1	2.1	2.3
Europe	FT/S&P Europe Ex. U.K.	5.0	5.0	0.4	0.4
Ireland	ISEQ	12.0	12.0	2.6	2.6
UK	FTSE 100	6.6	8.0	0.5	1.7
Japan	Topix	9.0	16.0	0.0	1.7
Hong Kong	Hang Seng	1.5	8.0	3.1	3.5
Australia	S&P/ASX 200	1.6	12.3	0.8	2.5
Bonds	Merrill Lynch Euro over 5 year Govt.	2.6	2.6	-0.7	-0.7

Global Equities

United States

Overview

US equities pushed higher last week for a sixth straight week of consecutive gains led by financials, energy and consumer discretionary stocks. Ahead of the earnings season which starts this week, the S&P is sitting at its best level since September 2008.

Family Dollar - The discount retailer, which sells most of its merchandise for less than $10, reported it attracted more shoppers, due in part to good weather and an early Easter, resulting in increased sales at its stores during its second fiscal quarter.

Europe

Overview

Despite fears surrounding Greece's debt problems dominating sentiment, European stocks advanced last week, pushing the market to a new high since September 2008.

UBS - Switzerland's largest bank reported the highest quarterly earnings (2.5bn Swiss francs) in almost three years helped by a recovery at the debt trading unit.

Ireland

Overview

The Irish market ended the week over 2% higher, following the rally in global markets. Banking stocks were the main talking point with AIB (+29%), Irish Life & Permanent (+13%) and Bank of Ireland (+9%) gaining, having fallen significantly the previous week.

Ryanair - The airline raised its net income guidance for the full year 2010 from a previously guided €275 million to not less that €310 million, citing stronger-than-expected passenger bookings as the primary reason for the upward revision.

Asia Pacific

Overview

Asian equities ended the week strongly, touching a 20-month high as positive US retail sales, strong earnings and talk of China revaluing its currency helped offset continuing concerns over Greece's sovereign debt issues. China's number two telecoms equipment-maker ZTE reported that it expects demand in its home market to keep growing this year, despite the strong 3G hype experienced in 2009.

Bonds

With equity and commodity markets gaining sharply, investors opted away from the perceived safety of government bonds. Bond markets started the week with Greek spreads widening sharply as worries continued regarding their public finances. German and other core markets received a flight to quality bid, but this subsided towards the weekend as markets began to calm as rumours of an EU/IMF package began to emerge. The Merrill Lynch over 5 year government bond index fell by 0.7% over the week.

Global Outlook

- Most economists expect that the global economy will grow by around 3.2% this year, following a contraction of 2.1% last year. Inflation pressures in the developed economies are set to remain muted, and at the margin are still being revised lower. A central issue is whether the private sector in Europe and the US is strong enough to allow some of the massive stimulus to be withdrawn. This factor plus constrained bank lending makes central banks 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), are likely to preoccupy policymakers for some time to come, while investors tend to disregard them when sentiment is positive towards risk assets. However, it is likely that such concerns will re-emerge as a market focus at some stage during 2010.
- Short rates remain at emergency levels in the major economies, although rates have been increased in economies such as Australia, India and China. Central bankers in Europe and the US are keen to remove emergency policy settings but they do not want to do so prematurely, a subtle message which has been tricky at times to communicate. Despite that, it is notable that rate expectations in the US, UK and eurozone remain at only 0.25% or less above their cycle lows. On balance, therefore, investors expect that low rates will persist for some time.
- Inflation data, short rates and liquidity conditions continue to support most bond markets, although we have seen some divergence between the various markets of late. The key background factor remains the exit from emergency policy settings. However, the dominant theme in the eurozone has been the fiscal woes in Greece. The "tragedy" has had many elements of farce along the way and the latest "solution" remains a messy and untested one, and we expect volatility will persist for some time because of that. It is likely that the longer-term picture for a successful euro will need a more far-reaching set of proposals.
- Global equity markets have reached new highs albeit with only moderate market activity to support the price moves achieved. Risk spreads in credit markets are quite tight with limited room for further gains there. Equity valuations are still reasonable, although less attractive than they were. We think that liquidity conditions should remain constructive, although we continue to expect the markets to be choppy during the course of the year.
- 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 are reasonably balanced but are still overweight technology and some industrials. Geographically, the funds are underweight in Ireland, neutral in the UK, Europe and Japan and overweight in the Pacific Basin and the US.

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