Eagle Star Investments

Weekly News

5th May 2009

Global Overview

Equity markets rally strongly

Global equity markets rallied strongly last week, as investors shrugged off fears over swine flu and the delay in the results of the government's stress test on banks. Instead, markets chose to focus on signs of an economic recovery in the form of better-than-expected economic releases and earnings data.

US economic data

US consumer sentiment rose in April, with the University of Michigan's final reading in April rising to 65.1, from a mid-month reading of 61.9. Strength in this index indicates that consumers believe the worst is now behind.

European economic data

The closely watched UK Manufacturing Purchasing Managers' Index (PMI) rose to an eight-month high of 42.9 in April, from 39.5 in March, which is better than the 40-level expected by analysts. The UK is enjoying a competitive edge in international trade terms, largely as a result of the weaker pound.

Oil & gold

Oil prices closed the week at just over the $53 per-barrel mark, as forecasts that crude inventories rose to their highest level in almost two decades countered optimism about economic recovery. Gold finished the week slightly lower, at $884 per ounce, with investors awaiting the US bank stress test result and the European Central Bank's interest rate decision, both due out next week.

	Index	Year to Date Return 31.12.08 to 01.05.09		1 Week Return 24.04.09 to 01.05.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-2.9	2.3	1.3	1.4
US	NASDAQ	9.0	14.7	1.5	1.6
Europe	FT/S&P Europe Ex. U.K.	-0.4	-0.4	2.0	2.0
Ireland	ISEQ	11.9	11.9	8.3	8.3
UK	FTSE 100	-4.3	2.8	2.1	3.5
Japan	Topix	-1.4	-5.3	2.0	-0.3
Hong Kong	Hang Seng	7.9	13.5	1.7	1.9
Australia	S&P/ASX 200	1.3	10.2	1.5	2.6
Bonds	Merrill Lynch Euro over 5 year Govt.	0.7	0.7	0.5	0.5

Global Equities

United States

Overview

Despite car-maker Chrysler filing for bankruptcy last week, factors such as cheap valuations, better-than-expected earnings reports, combined with improving macro economic indicators helped investors to remain optimistic. As a result, US stocks rose last week, completing their seventh positive week out of eight.

Wyeth – The US drug-maker followed several of its competitors in reporting better-than-expected first-quarter earnings of $1.2 billion, or 89 cents per share. Earnings were boosted by cost-cutting, combined with a significantly lower tax base.

Colgate Palmolive – The household care company also posted a higher first-quarter profit, aided by cost-cutting and increased pricing. It earned almost $508 million in the quarter, up from over $466 over the same period, a year ago.

Europe

Overview

European markets followed the rest of the world higher, as hopes for an economic recovery delivered renewed optimism to most sectors.

Financial sector – Financial stocks moved higher over the week, with Barclays Bank hitting a six-month high due to confidence that policy-makers are doing whatever it takes to reflate the global economy.

BP – Europe's second-largest oil company reported that first-quarter net profit fell to $2.39 billion. However, due to heavy cost-cutting, this result beat all analysts' forecasts.

Ireland

Overview

The Irish market finished the week over 8% higher, with banking and resource stocks leading the gains. CRH closed the week up by 18%. With infrastructure spending set to increase in the US, this provides further upside potential to the company's American division.

Asia Pacific

Overview

Asian markets advanced, on optimism that the worst of the global recession has passed. China's Purchasing Manufacturing Index continued its upward momentum, rising to 53.5 in April, from 52.4 in March - its fifth consecutive month of growth. This reading is the latest evidence that China's economy has benefited from the government's fiscal stimulus package.

Bonds

Despite a weaker US bond market, eurozone bonds gained primarily because markets such as Ireland, Italy and Greece gained versus Germany. The Merrill Lynch over 5 year government bond index rose by 0.5%.

Global Outlook

- Amidst a severe global recession and a collapse in world trade, investors have been seized by some green shoots in global economic data. There is also some hope that there could be an inventory re-build that might help growth in the short term. This arises because companies have cut back production even more severely than justified, by weak end-user demand.
- Policy activity continues unabated, ranging from fiscal expansion to quantitative easing (QE) programs, to measures aimed at removing assets from the banking system and encouraging new lending. The scale of these initiatives has been huge, but the ultimate success of these efforts is still far from assured, given the depth of the crisis faced by the global economic system.
- UK and US short rates have already reached their cyclical lows and euro rates will probably reach their lows, when the ECB cuts to 1% this week. Meanwhile, the commitment of the authorities to their QE programs remains open to debate, but should become clearer as government debt issuance rises in the coming weeks and months. The ECB has dithered on its next moves, with open disagreement among decision makers. Expect to see some more long-term liquidity measures and indications that more can be done if needed.
- It remains the case that the economic and policy backdrop should be bond-supportive for some time to come. Nonetheless, the major bond markets continue to tread water, as investors have been disappointed by how QE policies have been implemented and many commentators have speculated on the long-term inflation risks from the current policy mix. Peripheral bond markets, such as Spain and Ireland, have been helped by "solidarity" expressions from the EU and ECB and a slightly more positive attitude towards risk assets. Of course, periodic concerns about the budgetary positions and the sustainability of the euro project could easily arise and impact on these spreads once more.
- The green shoots have prompted risk-taking, and combined with large short positions and pessimistic sentiment, set the stage for a powerful rally. Despite the intent of policy makers to support the global economic system, there is ample scope for policy disappointment and setbacks in risk markets. The stress test of banks in the US is an immediate focus for equity markets, for instance. So far, this is a classic rally within a severe bear market. Historically, such bear market rallies can be quite large. However profit-taking and volatility are still likely to persist.
- Currently, the funds are slightly overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight utilities. Geographically, the funds have an underweight position in Ireland, are closer to neutral in Japan, the US and Europe, and are overweight in the Pacific Basin and the UK.

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