Eagle Star Investments

Weekly News 2nd June 2009

Global Overview

Equity markets extend gains

Despite experiencing setbacks in the form of mixed economic releases and news on the bankruptcy proceedings of General Motors, equity markets recorded healthy gains over the week. Evidence of improving confidence amongst US consumers combined with higher oil prices, boosted investor sentiment.

US economic data

There was encouraging news in the form of better-than-expected consumer confidence readings, which came in at 54.9 in May versus 39.2 in April. New home sales for April came in at an annual 352,000 rate, marginally lower than expected but up against a downwardly revised March figure. Although latest jobless claims eased, the numbers point to an increasing unemployment number. Elsewhere, the US economy shrank at a 5.7% annual pace in the first-quarter which was worse than estimates of -5.5%.

European economic data

Despite the German Ifo business sentiment index coming in at a weaker-than-expected 84.2 versus expectations of 85.0, it confirms an improvement from 83.7 in April. However, this release suggests that a swift recovery is unlikely to take place in Europe's largest economy.

Currencies & Commodities

In currency markets, the dollar fell to its lowest level this year, with the euro ending the week at $1.41, as the dollar appeal diminished in response to higher equity and commodity prices. On commodity markets, the oil price rose over the week, after Saudi Arabia, Opec's biggest member said the global economy had strengthened enough to weather oil prices in the region of $70-$80 a barrel. The oil price finished the week at over $66 a barrel.

	Index	Year to Date Return 31.12.08 to 29.05.09		1 Week Return 22.05.09 to 29.05.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	1.8	0.6	3.6	2.9
US	NASDAQ	12.5	11.2	4.9	4.1
Europe	FT/S&P Europe Ex. U.K.	2.9	2.9	0.2	0.2
Ireland	ISEQ	16.2	16.2	0.9	0.9
UK	FTSE 100	-0.4	9.1	1.2	2.0
Japan	Topix	4.5	-1.9	2.5	0.6
Hong Kong	Hang Seng	26.3	24.8	6.5	5.8
Australia	S&P/ASX 200	2.6	15.1	1.5	2.8
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.6	-1.6	-0.6	-0.6

Global Equities

United States

Overview

US equity markets recorded another good week as better-than-expected consumer confidence data and a drop in jobless claims overshadowed a disappointing home sales report and first-quarter GDP figure.

General Motors Corp. – The Company's board began its Chapter 11 filing in New York on Monday, and has won court approval to sell assets as early as next month.

Dell – The US computer giant posted a 63% decline in first-quarter profits. Net profit fell to $290m, from $784m in the same quarter, a year ago. On a positive note, the company noted that it had managed to keep expenses in line with expectations despite costs of recent restructuring.

Europe

Overview
European markets moved marginally higher following gains worldwide.

Wolseley – The plumbing and building materials group announced that it is cutting a further 3,500 jobs globally and has trimmed its capital expenditure after its markets around the world weakened further in March and April. The company reported an 80% fall in profits, to £72m, for the nine months to April 30th.

Ireland

Overview
The Irish market followed the rest of the world higher, finishing the week up almost 1%.

Ryanair – The airline company reported a full-year operating loss of €169m after writing down the value of its Air Lingus stake, compared to a profit of €391m last year.

Asia Pacific

Overview
Asian markets followed the rest of the world higher, as investors responded to strong US consumer confidence data. Hong Kong's Hang Seng Index surged by over 6% and Japan's Topix rose by over 2%. Japan's industrial output rose by 5.2% from March, the most in 56 years, indicating a rebound in exports. Elsewhere, India's economy grew by a more than estimated 5.8% in the first quarter of 2009, versus expectations of 5%. This growth was led by government expenditure and construction.

Bonds
Bond markets fell back last week, as worries about the high levels of bond issuance to finance the recession were heightened by the US Treasury's auctions of $101bn of new notes. The Merrill Lynch over 5 year government bond index fell by 0.6%.

Global Outlook

- Amidst the deepest global recession in decades, investors' focus remains firmly on the green shoots in the global economic data. The hope is that the freefall in the economic data is behind us, that an inventory rebound will help growth in the short-term and that policy action will put a more lasting floor under activity in the medium-term.
- The scale of the initiatives to save the banking system and offset the collapse in private sector demand has been unprecedented. The ultimate success of these efforts – or their unintended consequences – is still uncertain, given the depth of the crisis faced by the global economic system. For the moment, markets participants have moved to other topics and these issues have faded into the background.
- Short rates have likely reached their cyclical lows in the major economies – at somewhere between 0% and 1% – and the question is how long short rates will be maintained. The results of the US and UK Quantitative Easing (QE) programs have been mixed so far and it remains to be seen how the ECB will deploy its corporate bond buying program. The major central banks are already talking about exit strategies from these initiatives, suggesting a tepid level of commitment to their implementation.
- Bonds have performed badly, as investors have re-embraced risk assets and authorities have disappointed with their QE policies; many commentators have also 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 more positive attitude towards risk assets. Periodic concerns about the budgetary positions could easily impact on these spreads again, although it seems that the political commitment to containing this issue has strengthened in recent weeks.
- Economic green shoots combined with large short positions and pessimistic sentiment produced a powerful bear market rally in equity markets over the past few weeks. The stress test of the US banks was choreographed very well, allowing a number of banks to raise new capital or announce their expectation of doing so; corporate debt markets have also been more supportive to equity markets. However, market sentiment seems to have swung from one extreme to another in this large rally, creating room for disappointment with policy initiatives and the possibility of setbacks in risk markets.
- Currently, the funds are close to neutral in equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight healthcare and utilities. Geographically, the funds have an underweight position in Ireland and the US, are closer to neutral in Japan, the UK and Europe, and are overweight in the Pacific Basin.

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