Eagle Star Investments

Weekly News 17th August 2009

Global Overview

Equity markets fluctuate

It was a rocky week for equity markets, with most finishing marginally lower, as slightly more positive comments from central banks worldwide were offset by some weaker data and volatility on China's equity markets.

US economy

The Federal Reserve announced that it would hold the benchmark rate "exceptionally low for an extended period", when it met last week. The rate remains at the 0.25% level it hit last December. The Fed also gave an improving view of the economy, but investors chose to focus on the disappointing retail sales, jobless claims and consumer confidence data which were released over the week.

Eurozone GDP

Figures released showed that the eurozone's largest economies, Germany and France, saw GDP growth in Q2, helped by government spending and net exports. This unexpected expansion brought an end to the recession in both economies and helped the eurozone as a whole to record only a 0.1% contraction over the quarter.

Commodities

Oil fell to a two-week low, at just above $67 a barrel, as weak consumer sentiment in the US raised worries that oil's recent rally has run ahead of the global economic recovery. Copper, on the other hand, saw its price reach a ten-month high, driven by a surge in stockpile demand.

	Index	Year to Date Return 31.12.08 to 14.08.09		1 Week Return 07.08.09 to 14.08.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	11.2	9.0	-0.6	-1.0
US	NASDAQ	25.9	23.5	-0.7	-1.1
Europe	FT/S&P Europe Ex. U.K.	13.0	13.0	-0.7	-0.7
Ireland	ISEQ	25.9	25.9	2.4	2.4
UK	FTSE 100	6.3	18.2	-0.4	-1.6
Japan	Topix	13.3	6.4	1.8	4.4
Hong Kong	Hang Seng	45.2	42.4	2.5	2.2
Australia	S&P/ASX 200	19.8	38.8	3.8	2.9
Bonds	Merrill Lynch Euro over 5 year Govt.	3.1	3.1	1.3	1.3

Global Equities

United States

Overview

US markets retreated slightly due to weak consumer sentiment & retail sales and a jump in jobless claims. Investors will be waiting to see if this is a temporary blip after many weeks of improving jobs data.

Walmart – Despite sales being weaker-than-expected, the world's largest retailer reported profit that beat expectations. The company stated that it had managed inventory to reduce costs and that it plans to accelerate this strategy.

Alcoa – Shares of the aluminium producer reached a ten-month high on Thursday, as the aluminium price rose following the Fed's outlook for the economy. It managed to finish the week 2% higher, despite a slight claw back of gains on Friday.

Europe

Overview

Eurozone stocks logged their first losses in a month, but these were pared following the improvement in the region's GDP data.

Nestlé – Earnings figures from Nestlé confirmed the extent to which the recession hurt the company when it reported its first profit decline in six years. It also pulled back its full-year sales guidance on lacklustre volume growth. It finished the week over 4% lower.

Aegon – The Dutch insurer fell by almost 6% over the week, after posting its fourth consecutive quarterly loss, mainly due to losses incurred on writedowns. Despite the earnings miss, the group's book value was substantially better-than-expected and the company placed €1bn worth of stock in order to repay the Dutch government.

Ireland

Overview

The Irish market gained over 2% during the week, with bank shares leading the way.

AIB – Shares in AIB gained over 10% on Friday following reports that a Canadian bank is interested in taking a minority stake in the institution.

Asia Pacific

Overview

Asian markets started the week strongly following the Chinese government's announcement that it would maintain its stance aimed at providing stimulus to the economy as it recovers from the global recession. Markets added to these gains following the outlook from the Fed, to finish the week higher (they had closed prior to Friday's disappointing consumer sentiment data in the US).

Bonds

Eurozone bonds rose following reports showing disappointing US retail sales and consumer confidence data, while investors also focussed on the weaker-than-expected eurozone inflation data. The Merrill Lynch over 5 year government bond index rose by 1.3%.

Global Outlook

- Economic data has stabilised after being in freefall earlier this year and GDP forecasts are currently being revised higher; indeed France, Germany and Japan have all recorded positive growth in the last quarter. The strains within the financial system have eased considerably, although outside of China, bank lending is moribund and this remains a concern.
- Part of the improvement can be attributed to the unprecedented scale and scope of policy initiatives to save the banking system and offset the collapse in private sector demand. Because of the scale of the global crisis, the ultimate success of these efforts (or their unintended consequences) is still far from certain.
- Short rates have likely reached their cyclical lows in the major economies, at somewhere between 0% and 1%. The major central banks feel in a quandary, however, in trying to keep policy easy while talking about exit strategies from their various initiatives, including their partially-successful QE policies. Investors' expectations regarding how soon short rates will be increased have gyrated over the past few weeks, most recently being scaled back significantly. Rates should remain very low for some time to come.
- Current inflation indicators in most of the major economies are still pointing downwards. That may continue to provide some support to bonds, although the exit from emergency short rates (whenever that comes) is unlikely to leave bond markets unaffected. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively, helped by considerably-improved funding positions. In the short term, the scope for further narrowing must be limited.
- Developed equity markets have been boosted by recent earnings' data and some better economic data, although the upward momentum seems to be stalling somewhat. China's equity market surge had been a positive for sentiment but its bubble-like behaviour has recently become a concern. It is noteworthy also that final demand in Europe and the US remains weak and that many of the earnings from those regions (outside of financials) have been boosted by cost control. Market sentiment seems to have swung to an extremely bullish stance in the past couple of weeks, so we could easily see some consolidation in the near term. Seasonal concerns may also be a factor in markets over the next few weeks.
- Currently, the funds are neutral to overweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight energy. Geographically, the funds have an underweight position in Ireland and the US, are closer to neutral in Japan and the UK, and are overweight in the Pacific Basin and Europe.

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