Eagle Star Investments

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ZURICH

Global Overview

Equities hit 11-month high

Equity markets extended their rally last week, as further encouraging reports worldwide point to continued economic improvement. These gains came in a week that marked the first anniversary of the collapse of Lehman Brothers.

German inflation data

The German producer price index eased deflationary fears when it rose for the first time in eleven months. Energy costs were the component to rise most over the past month.

US data

There was a plethora of positive economic data released in the US last week, improving the outlook for all sections of the economy. Housing starts, jobless claims, industrial production and business activity indices all surprised to the upside.

National Asset Management Agency (NAMA)

Finance Minister Brian Lenihan announced that NAMA will buy about €77bn of loans from the main banks (including those from AIB, Bank of Ireland and Anglo Irish Bank) to remove bad assets from the balance sheets, while also committing to providing additional capital if the banks are unable to raise it from investors. The loans will be bought at an average discount of 30%, to reflect the slump in property values.

Gold & the dollar

Gold continued to set records when it hit $1,020 an ounce on Wednesday. This happened amid further weakening of the US dollar against most major currencies. Investors are expecting the Fed to hold rates at close to zero when it meets next week, while also extending the end date of its quantitative easing program. The €/$ rate finished the week above 1.47, while gold retreated slightly to $1,009.

	Index	Year to Date Return 31.12.08 to 18.09.09		1 Week Return 11.09.09 to 18.09.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	18.3	12.1	2.5	1.4
US	NASDAQ	35.2	28.2	2.5	1.5
Europe	FT/S&P Europe Ex. U.K.	22.5	22.5	2.0	2.0
Ireland	ISEQ	47.4	47.4	6.0	6.0
UK	FTSE 100	16.7	23.4	3.2	-0.3
Japan	Topix	9.3	3.1	-1.2	-3.0
Hong Kong	Hang Seng	50.3	42.4	2.2	1.1
Australia	S&P/ASX 200	26.1	47.4	2.1	1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	3.1	3.1	-0.6	-0.6

Global Equities

United States

Overview

US indices benefited from a further rise in economic indicators, including both retail sales and industrial production. Following these signs that the recession is easing, the VIX, a volatility index, fell to its lowest level in a year, 40% lower than the start of the year.

Apple – Apple's shares rose after stockbroker Macquarie upgraded it to "outperform", saying it is "increasingly confident that Apple has negotiated the worst of the consumer recession" and that the iPhone would continue to dominate the smartphone market next year. Apple's shares rose by 7.5% on the week.

Europe

Overview

European markets enjoyed another positive week, as improving economic reports worldwide helped raise investors' outlook for corporate earnings.

Construction sector – Construction and material stocks got a boost from both the improving economic data and the raising of the outlook for the sectors by two stockbrokers. Greece's Titan Cement, Lafarge in France and CRH all rallied following this.

Merger & acquisitions – Super de Boer, a Dutch food retailer, saw its shares surge last week after receiving an offer from a rival company. This was further evidence of M&A activity returning to the market, after Kraft's approach for Cadbury last week.

Ireland

Overview

The ISEQ rallied by 6% after the details of NAMA were taken positively by the market.

Banks – AIB and Bank of Ireland led the way on the ISEQ last week, after NAMA announced it will buy a combined €40bn of loans from the two banks, to rid both of bad loans from their balance sheets. AIB rose by 28% and Bank of Ireland by 20%.

Asia Pacific

Overview

Most Asian markets followed the rest of the world higher, helped by the economic data and rallying commodity prices. Some indices have reached levels not seen since the collapse of Lehman Brothers this time last year. The Bank of Japan upgraded its assessment of the economy, saying it sees "signs of recovery", but the market finished the week lower as the weakening dollar hit the outlook for exporters' earnings.

Bonds

Last week saw many successful bond issuances in a number of eurozone countries, including France, Spain, Italy and Ireland. This increase in supply, along with the easing of deflationary pressures, caused bonds to finish the week slightly lower. The Merrill Lynch over 5 year government bond index fell by 0.6%.

Global Outlook

- Economic data has improved after being in freefall earlier this year and economists have been revising their GDP forecasts higher. The strains within the financial system have eased considerably although, outside of China, bank lending is still restricted and this is a concern for policymakers, most of whom remain slightly cautious on the economic outlook. They are not a major issue yet, but trade tensions are worth watching for any economic or market impact.
- Much of the economic improvement is down to the scale and scope of policy initiatives that were deployed to rescue the banking system and offset the collapse in private sector demand. The ultimate success of these efforts (or their unintended consequences) remains uncertain, given the size of the global crisis that they are seeking to redress.
- Short rates hover between 0% and 1% in the major economies, with central banks continuing to pursue a nuanced policy. They want to keep rates sufficiently low to ensure recovery, but also want to exit from emergency policy settings as soon as conditions permit. While short rates remaining 'lower-for-longer' has been the dominant theme among investors in recent weeks, expectations have risen slightly in recent days.
- Inflation in most of the major economies remains supportive to bond markets, which have also benefited from a positive liquidity backdrop. In the background, however, is the exit from emergency policy settings, which is unlikely to leave bond markets unaffected. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively, helped by a generally supportive backdrop for risk.
- Global equity markets continue to move to new interim highs, although 'grinding higher' probably best captures the pace of recent moves, in what historically can be a tricky seasonal spell for equity markets. China's equity market continues to exhibit bubble-like behaviour but has been less of a factor in overall market sentiment than before. It is noteworthy that many of the earnings from the US and Europe, outside of financials, have been boosted by cost control, which may be difficult to sustain. Having said that, earnings are still generally being revised upwards. On balance, positive forces hold sway over equity markets at the moment.
- 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 basic materials. Geographically, the funds have an underweight position in Ireland, the US and Japan, are closer to neutral in the UK and are overweight in the Pacific Basin and in Europe.

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