Eagle Star Investments

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ZURICH

Global Overview

Equity markets move lower

Equity markets retreated for the second week running, for the first time since early July, as economic data worldwide trailed expectations. Investors' eyes are now firmly focussed on the Q3 earnings results and trading updates over the coming weeks.

US employment situation worsens

Job losses in the US unexpectedly accelerated last month, contributing to the unemployment rate rising to its highest level since 1983. The rate now sits at 9.8%. The jobs report also revealed that companies cut working hours, resulting in a smaller gain in weekly earnings.

Eurozone data

President of the ECB, Jean-Claude Trichet, gave further indications that the ECB will continue to provide support to the markets after he said that "it is too early to start withdrawing stimulus measures and declare the crisis over". This came on a week that saw the unemployment rate in the eurozone inch higher to 9.6%.

The dollar

Finance chiefs from the G20 said a strong dollar is essential to the global economic recovery. The €/$ rate finished the week at 1.46, a fall of over 0.5%, while the dollar gained against a broad-range of currencies.

Commodities

After gains early in the week, oil, and most other commodities, retreated from recent highs as economic data from jobs to factory orders missed expectations in the US, pointing to a slower-than-expected recovery in economic growth. Oil finished the week at $70 a barrel, with gold still at the $1,000 level.

	Index	Year to Date Return 31.12.08 to 02.10.09		1 Week Return 25.09.09 to 02.10.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	13.5	8.5	-1.8	-1.3
US	NASDAQ	29.9	24.2	-2.0	-1.5
Europe	FT/S&P Europe Ex. U.K.	17.6	17.6	-2.3	-2.3
Ireland	ISEQ	37.9	37.9	-2.4	-2.4
UK	FTSE 100	12.5	17.3	-1.8	-1.7
Japan	Topix	1.8	-1.5	-5.2	-4.5
Hong Kong	Hang Seng	41.6	35.4	-3.1	-2.5
Australia	S&P/ASX 200	23.6	45.2	-2.4	-1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	4.7	4.7	0.5	0.5

Global Equities

United States

Overview

US markets finished the week in the red, as economic data pointed to a slower recovery than investors had been pricing into earnings forecasts.

Raw materials – The raw materials sector was one of the main fallers on the S&P 500 last week, as manufacturing and factory orders data was weaker-than-expected, helping the dollar strengthen and copper retreat. This resulted in stockbroker, Goldman Sachs, cutting its view of the metals and steel industry to 'neutral' from 'attractive'. US Steel and AK Steel both finished the week roughly 13% lower.

Europe

Overview

Amid worries for the pace of the economic recovery worldwide, European stocks finished the week over 2% lower.

Siemens – Siemens lost 6% on the week, after its CFO said it was having a "tough year, as orders for its factory equipment and lighting products fall". Job cuts have deepened as a result.

Ireland

Overview

The ISEQ finished the week over 2% lower, as some of the largest companies, including Irish Life & Permanent, Elan and AIB all fell.

Independent News & Media – The company saw its shares drop by 30% over the week, after it announced a proposed debt-for-equity solution to its outstanding €200m debt problem. This would lead to a dilution of current investors' holdings if it goes ahead.

Asia Pacific

Overview

Asian stocks fell the most in six weeks on concern that the rally has outpaced prospects for economic recovery. Stocks relying on exports to the US suffered once again, as sales slow up amid falling consumer confidence. Toyota, which gets 31% of its sales from the US, finished the week almost 10% lower after it reported a decline in US orders.

Bonds

Government bond markets gained for another week as investors turned towards the safety of government debt, due to employers cutting more jobs than expected and investors awaiting Q3 earnings results, starting next week. Bonds also got a boost from Jean-Claude Trichet's comments, leading to investors expecting interest rates to remain low for some time to come. The Merrill Lynch over 5 year government bond index gained 0.5%.

Global Outlook

- Economic data has improved with the IMF now anticipating positive growth of 3.1% in 2010, after an expected fall of 1.1% this year. The strains within the financial system have eased considerably, although outside of China, bank lending is still impaired. Partly for this reason, policymakers remain slightly cautious on the economic outlook. Trade tensions are not yet a major issue but, as with the recent spat between the US and China, they are worth watching for any economic or market impact.
- Analysts attribute much of the economic improvement to the scale and scope of policy initiatives 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 continue to hover between 0% and 1% in the major economies, with central banks pursuing a nuanced policy. They want to keep rates sufficiently low to foster recovery but also want to exit from emergency policy settings as soon as conditions permit. "Lower-for-longer" has been the dominant theme among investors in recent weeks; future rate expectations are at their lows in the US and UK but have risen slightly in the eurozone.
- Inflation in most of the major economies remains supportive to bond markets, which have also benefited from the same positive liquidity backdrop that has helped other assets. In the background, however, is the exit from emergency policy settings, which is bound to have some impact on bond markets. 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 have backed off slightly from a recently-attained interim high, in what historically can be a tricky seasonal spell for equity markets. Q2 earnings were dominated by banks playing the yield curve and generalised cost control in other sectors, but investors had anticipated much of this and in the short term, at least, the balance of overall sentiment has turned slightly negative. Attention will now turn to Q3 earnings and whether any new trends will develop. Having said that, earnings are still generally being revised upwards.
- 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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