Eagle Star Investments

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ZURICH

Global Overview

Most markets move higher

Most equity markets pushed higher as earnings releases surprised to the upside. A number of markets are now sitting at one-year highs.

Mixed US data

Industrial production in the US rose for the fourth successive month, helped in part by the rebound in manufacturing activity in the auto sector. Elsewhere, jobless claims fell and consumer confidence dipped last month.

Eurozone data

Eurozone exports had their biggest decline since January, when they fell by almost 6% from July. There is some concern that the euro's appreciation against most currencies could hamper the economic recovery in the region.

The dollar

The dollar weakened for another week against the euro, on speculation that the Federal Reserve will trail other central banks in raising interest rates. This followed the minutes of the Fed's last meeting which showed that some policymakers were open to boosting the current quantitative measures. The €/$ rate finished the week at 1.49, a gain of almost 1%, having hit an intra-day high of almost 1.50 midweek.

Commodities

Oil climbed to a one-year high, as increasing US industrial production led to speculation that the economic recovery will be sustained, spurring demand for oil and other commodities. Oil finished the week above $78 a barrel, a gain of 9.4% on the week.

	Index	Year to Date Return 31.12.08 to 16.10.09		1 Week Return 09.10.09 to 16.10.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	20.4	12.8	1.5	0.2
US	NASDAQ	36.8	28.1	0.8	-0.5
Europe	FT/S&P Europe Ex. U.K.	23.3	23.3	0.7	0.7
Ireland	ISEQ	39.4	39.4	-2.4	-2.4
UK	FTSE 100	17.1	23.0	0.5	2.3
Japan	Topix	4.9	-1.8	0.3	-2.1
Hong Kong	Hang Seng	52.4	42.8	2.0	0.7
Australia	S&P/ASX 200	29.9	58.3	1.8	1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	3.6	3.6	-0.8	-0.8

Global Equities

United States

Overview

Better-than-expected earnings results from some bellwether stocks helped markets move higher. The psychological barrier of 10,000 on the Dow Jones Index was broken midweek and it managed to finish just below this value for the week. The Volatility Index (VIX) dropped further last week, as investor optimism rises, leaving the VIX at a 13-month low.

Earnings results – JP Morgan, Intel, Google and IBM were among the companies who beat expectations last week. IBM further demonstrated its strength this year by raising its year-end outlook. However, it wasn't all positive for the week as General Electric missed revenue projections and Bank of America reported a wider loss than expected, as consumer credit problems offset an improvement in its investment banking unit.

Europe

Overview

European markets inched higher as earnings results in the region, and the US, beat expectations. Disappointing results on Friday, along with some investors locking-in profits, caused markets to pare some of their gains.

Philips – Philips, Europe's biggest consumer-electronics maker, rose by over 7% on the week, after it announced operating earnings at the consumer unit more than doubled.

Nokia – The mobile phone company finished the week sharply lower, after it announced its first net loss since it started reporting quarterly in 1996. It said weaker demand and negative provisioning from its telecoms infrastructure joint venture with Siemens hurt earnings in Q3. Its shares were down by almost 9% over the week.

Ireland

Overview

The ISEQ retreated over 2% last week, as banking stocks finished the week lower.

Banking sector – Banks gave back some of their recent gains as investors await the banks' plans on recapitalisation post-NAMA.

Asia Pacific

Overview

Asian stocks rose for a further week, as better earnings outlooks worldwide and a further improvement in the region's economic indicators helped stocks and commodities, including oil, to reach one-year highs. Two of the world's largest companies, Nippon Steel and PetroChina, gained strongly following a stockbroker upgrade and the rising oil price, respectively.

Bonds

European bonds fell last week due to better-than-expected earnings results and a surge in government debt sales over the past week. The Merrill Lynch over 5 year government bond index fell by 0.8%.

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 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 continuing to pursue a nuanced policy. They want to keep rates sufficiently low to foster recovery but also want to exit from emergency policy settings as quickly as conditions permit. The recent rate increase in Australia has made investors slightly more nervous, but "lower-for-longer" is still the dominant theme among investors in the US, UK and eurozone.
- Inflation is still generally supportive to bond markets, which have also benefited from the same positive liquidity backdrop that has helped other assets. The "elephant in the room" remains the exit from emergency policy settings, which is bound to have some impact on bond markets, just as the Fed's recent "dry-run" of liquidity withdrawal did. 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' valuations are now rich rather than cheap, but markets have continued to grind out recoveries from any of the recent dips. Additionally, the Q3 earnings' data has helped to maintain the balance of overall sentiment on the positive side of neutral.
- 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 healthcare. 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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