Eagle Star Investments

Weekly News 27th October 2009

Global Overview

Most markets remain unchanged

Most markets finished the week relatively flat as investors took profits following further forecast-beating results. Many markets are still hovering around 1-year highs.

Mixed US data

Existing home sales in the US surged by almost 10% in September, as buyers rushed to take advantage of a tax credit for first-time buyers before it expires next month. New homes starts disappointed investors though, after a report showed they were lower than forecasts, while initial jobless claims also took a jump last week.

Eurozone data

Europe's manufacturing activity expanded for the first time in seventeen months, while German business confidence rose to a 13-month high. Economists are expecting the eurozone economy to return to growth in Q3 when figures are released shortly.

The dollar

Evidence of further recovery in the global economy increased demand for riskier assets, causing the dollar to fall against most currencies. The dollar fell to a 14-month low against the euro with the €/$ rate crossing the psychological 1.50 mark. The failure of the euro to move higher on Monday saw some buying of the dollar, sparking a fall in the €/$ rate gain to just below 1.49.

Commodities

Oil and other commodities gained over the week, helped by a weak dollar. Oil rose above the $80 a barrel mark, to finish at a year-high of $80.50, a gain of 2.5% on the week.

	Index	Year to Date Return 31.12.08 to 23.10.09		1 Week Return 16.10.09 to 23.10.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	19.5	10.9	-0.7	-1.7
US	NASDAQ	36.6	26.8	-0.1	-1.0
Europe	FT/S&P Europe Ex. U.K.	23.0	23.0	-0.3	-0.3
Ireland	ISEQ	34.2	34.2	-3.7	-3.7
UK	FTSE 100	18.2	22.8	1.0	-0.1
Japan	Topix	5.0	-3.8	0.1	-2.0
Hong Kong	Hang Seng	57.0	45.7	3.0	2.0
Australia	S&P/ASX 200	30.5	59.0	0.5	0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	3.5	3.5	-0.1	-0.1

Global Equities

United States

Overview

There were further better-than-expected earnings results from bellwether stocks in the US. So far, of the companies that have reported profits, almost 80% exceeded analysts' earnings forecasts.

Amazon – The online retailer reported a surge in sales, as discounts and the Kindle, an Amazon electronic book reader, helped the company to a 69% rise in profit. Shares in the company finished the week 24% higher.

Apple – Apple's shares jumped over 8% after its earnings results showed sales of the iPhone and Mac computers soared. Following this, the share price closed just at $204, an all-time high.

Europe

Overview

European markets retreated slightly after investors took profits and broadened their portfolios, amid fears that the seven-month rally has outpaced the prospects for economic growth, making valuations more expensive.

Daimler – Germany's luxury automaker pre-released a very strong set of earnings, well above analysts' expectations, with sequential improvement in its Mercedes and truck divisions. The stock finished almost 5% higher over the week.

Ireland

Overview

The ISEQ finished the week in negative territory after sharp drops in Elan and weak share price performance in the financial sector.

Elan – The drug maker was one of the worst stocks on European markets last week, down by 24%. Despite better-than-expected results, the disclosure of a significant increase in PML cases (a side effect linked to Tysabri), caused investors concern about the potential lower sales of Tysabri in the future.

Asia Pacific

Overview

Asian stocks traded slightly higher over the week, amid speculation that China will maintain stimulus spending and as earnings figures worldwide boost the appeal of equities. Chinese property stocks saw strong gains as sales of residential developments increased by 80% year-on-year through the holiday season. In Australia, investors have raised interest rate expectations as the economy continues to see sustained growth. The Australian central bank was the first of the major economies to raise interest rates following signs of a strong economic rebound.

Bonds

European bonds fell for another week as economic data suggests the economic recovery is gathering pace. Investors' interest rate forecasts have risen as a result of this. The Merrill Lynch over 5 year government bond index fell by 0.1%.

Global Outlook

- Economic data has improved with forecasters anticipating a return to positive growth in 2010, after a further fall of 1% in global growth 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 bear watching for any economic or market impact.
- Much of the economic improvement is attributed 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 and future rate expectations have risen slightly. However on balance, most investors still expect that low rates will persist for some considerable time in the major economies.
- 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, and these concerns have impacted negatively on bonds in the past couple of weeks. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively, helped by a generally supportive backdrop for risk, but some greater differentiation in the performance of individual markets has become evident in recent weeks.
- Global equity markets' valuations are now rich rather than cheap, and some of the Q3 earnings' enthusiasm was dampened by some negative economic data. However, markets have continued to grind out recoveries from any of the recent dips with the balance of overall sentiment remaining positive. This pattern will likely be tested again in the next week or two.
- 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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