Eagle Star Investments

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Global Overview

Mixed week on markets

The previously buoyant mood across equity markets came to an abrupt halt on Friday, after the U.S. Securities and Exchange Commission (SEC) charged Goldman Sachs Group with fraud relating to sub-prime mortgages. This overshadowed some of the week's strong corporate earnings results, resulting in earlier gains being erased as nervous investors switched out of riskier assets.

Chinese housing market

The Chinese government stepped up measures to cool property speculation, instructing banks to cease lending for third-home purchases, while also increasing the down-payment ratios required for some property purchases.

US economic data

The University of Michigan consumer sentiment index unexpectedly fell in April, to the lowest level in five months, indicating that Americans are discouraged about the labour market. Elsewhere, jobless claims jumped for the second consecutive week by 24,000, to 484,000.

Eurozone economic data

Industrial production in the eurozone rose by 0.9% in February from the month before, much higher than the 0.1% anticipated by markets.

Currencies & Commodities

Despite the euro continuing to be undermined by Greek deficit worries, the €/$ rate ended the week largely unchanged at 1.35. Earlier in the week, Chinese imports, GDP data and a drop in inventory levels provided support for the oil price. However, as the week progressed, the release of disappointing economic data and the fraud charges against Goldman Sachs triggered a flight from commodities. As a result, the oil price declined by 2%, to end the week at $83 a barrel.

	Index	Year to Date Return 31.12.09 to 16.04.10		1 Week Return 09.04.10 to 16.04.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	6.2	11.8	-0.4	-0.6
US	S&P 500	6.9	13.5	-0.2	-0.4
US	NASDAQ	9.3	16.1	1.1	0.8
Europe	FT/S&P Europe Ex. U.K.	4.3	4.3	-0.7	-0.7
Ireland	ISEQ	12.2	12.2	0.2	0.2
UK	FTSE 100	6.1	7.4	-0.5	-0.5
Japan	Topix	9.0	17.1	-0.1	1.0
Hong Kong	Hang Seng	0.0	6.0	-1.5	-1.9
Australia	S&P/ASX 200	2.3	11.8	0.7	-0.4
Bonds	Merrill Lynch Euro over 5 year Govt.	3.0	3.0	0.4	0.4

Global Equities

United States

Overview

Despite the release of mostly better-than-expected corporate earnings results, (JP Morgan, UPS, Intel, General Electric and Bank of America) equities retreated last week as disappointing labour data, combined with news that Goldman Sachs has been charged with fraud, sent the S&P 500 back below the 1,200 mark.

Earnings releases - General Electric posted earnings that topped Wall Street's view. The company now expects profit to rise throughout 2010, as aviation and energy markets strengthen and loan losses peak. Conversely, despite its Q1 profit matching estimates, aluminium producer Alcoa fell by 3% over the week, as quarterly revenue trailed analysts' expectations.

Europe

Overview

European stocks fell for the first week in seven, as US regulators sued Goldman Sachs Group for fraud and US consumer confidence unexpectedly declined. These developments overshadowed the EU-led agreement to rescue Greece. Mining and airline stocks led the retreat.

Airline sector - The airline sector traded lower on worries about air traffic disruption in Europe after a cloud of ash from a volcano in Iceland shut down airports across northern Europe. Deutsche Lufthansa, Europe's second-largest airline, fell by 3% whilst British Airways traded over 5% lower during the week.

Ireland

Overview

Despite the weakness in global equity markets last Friday, the Irish market finished the week largely unchanged. Unsurprisingly, Ryanair followed the pattern already set by other European airline stocks, falling by 3% over the week. Elsewhere, an improvement in US construction activity resulted in CRH gaining 3% for the week.

Asia Pacific

Overview

Asian equities retreated last week, after China announced measures to cool its property market, US jobless claims unexpectedly increased and commodity prices dropped. China Overseas Land & Investment Limited fell by almost 5% after the Chinese government raised down-payment ratios on some home purchases. Elsewhere, China's first-quarter growth accelerated to its fastest pace in almost three years, rising 11.9% from a year earlier.

Bonds

Eurozone bonds only gained marginally last week, despite investors' move away from risky equity and commodity markets towards safer assets. Greek government bonds traded within a volatile range as the country appeared to move closer to activating a support package agreed by eurozone countries and the IMF last week. The Merrill Lynch over 5 year government bond index gained 0.4% over the week.

Global Outlook

- The consensus expectation is that the global economy will grow by around 3.2% this year, following a contraction of just over 2% last year. Inflation pressures in the developed economies remain well behaved and, at the margin, are still being revised lower. A central issue is whether the private sector in Europe and the US is strong enough to allow some of the massive stimulus to be withdrawn. This factor, plus constrained bank lending makes central banks still somewhat cautious on the economic outlook.
- Concerns about the long-term consequences of the credit burst (and the unintended consequences of a myriad of policy actions), are still to the fore of policymakers' minds but investors tend to only have a periodic concern about them. However, it is quite possible that such worries will become a market focus at some stage again during 2010.
- Short rates remain at emergency levels in the major economies, although rates have been increased in economies such as Australia, India and China. Central bankers in Europe and the US are keen to remove emergency policy settings but they do not want to do so prematurely, a subtle message which has been tricky at times to communicate. Despite that, it is notable that rate expectations in the US, UK and eurozone have once again made new cycle lows in the past week. On balance, therefore, investors expect that low rates will persist for some time.
- Inflation data, short rates and liquidity conditions continue to support most bond markets, although we have seen some divergence between the various markets of late. The key background factor remains the exit from emergency policy settings. However, the dominant theme in the eurozone has been the fiscal woes in Greece. The "tragedy" has had many elements of farce along the way and the latest "solution" remains a messy and untested one. Hence, Greek spreads have deteriorated to their worst levels yet during the past few days. We expect volatility will persist for some time because of that, and it is likely that the longer-term picture for a successful euro will need a more far-reaching set of proposals.
- Global equity markets have reached new highs, albeit with only moderate market activity to support the price moves achieved. Risk spreads in credit markets are quite tight with limited room for further gains there. Equity valuations are still reasonable, although less attractive than they were. We think that liquidity conditions should remain constructive, although we continue to expect the markets to be choppy during the course of the year. Investors could become nervous at these levels in the short-term but we expect some further progress first before any proper correction ensues.
- Currently, the funds are neutral to slightly long in equities and closer to neutral in bond weightings, versus the manager average. Within equity sectors, the funds are reasonably balanced but are still overweight technology and some industrials. Geographically, the funds are underweight in Ireland, neutral in the UK, Europe and Japan and overweight in the Pacific Basin and the US.

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