Eagle Star Investments

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Global Overview

Equity markets decline heavily

Global equity markets remained volatile over the week, amid growing investor nervousness that the fiscal austerity measures adopted by European countries to counteract the sovereign debt crisis could slow down the pace of the global economic recovery. In addition, mixed economic data releases weighed heavily on investor sentiment.

US economic data

New claims for jobless benefits declined from a two-month high and orders for long-lasting manufactured goods rose in May. In contrast, however, first-quarter US economic growth was slower-than-estimated and, along with disappointing US new and existing home sales, dampened equity markets.

Federal Reserve Meeting

The Federal Reserve Committee voted 9-1 in favour of maintaining interest rates at a record low. Federal Reserve Chairman, Ben Bernanke, delivered a subdued assessment of the US economy.

Eurozone economic data

The closely-watched Ifo Index showed that German business confidence rose slightly in June, with euro weakness and a global recovery generally improving the outlook for exports.

Currencies

The uncertainty over the eurozone outlook was also reflected in currency markets with the euro currency coming under continued pressure. The $\$ rate ended the week at 1.23.

Commodities

Oil traded within a range during the week. However, towards the end of the week, a robust US durable goods orders number for May triggered a bounce and it ended the week at almost \$79 a barrel, a gain of 2%. Earlier in the week, as investor confidence waned, gold hit another record high of almost \$1,265 per troy ounce.

	Index	Year to Date Return 31.12.09 to 25.06.10		1 Week Return 18.06.10 to 25.06.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-3.4	9.3	-3.0	-2.3
US	S&P 500	-3.4	12.1	-3.6	-3.5
US	NASDAQ	-2.0	13.7	-3.7	-3.6
Europe	FT/S&P Europe Ex. U.K.	-4.2	-4.2	-3.2	-3.2
Ireland	ISEQ	-1.0	-1.0	-5.5	-5.5
UK	FTSE 100	-6.8	0.5	-3.9	-2.5
Japan	Topix	-4.4	15.7	-2.0	-0.3
Hong Kong	Hang Seng	-5.4	9.5	2.0	2.2
Australia	S&P/ASX 200	-9.4	1.9	-3.1	-2.8
Bonds	Merrill Lynch Euro over 5 year Govt.	2.8	2.8	0.0	0.0

Global Equities



United States

Overview

US equities fell heavily over the week, as concern about the health of the US economy and worries about stringent financial regulation dominated investor worries. Energy and retail stocks led the decline. Financials bounced on Friday as the final version of the legislation was not as onerous as some had expected

Oracle – The technology company has reported that net income in the fiscal fourth-quarter rose by 31% due to higher-revenue business software and hardware sales following the acquisition of Sun Microsystems.



Europe

Overview

European markets shed 3% over the week, due to renewed worries about eurozone debt problems.

BP – The share price remained under pressure last week, falling by almost 15%, as the energy company attempts to bring the massive oil spill in the Gulf of Mexico under control. The company is spending \$100 million a day, in efforts to clean and contain the spill, bringing its total bill to \$2.35 billion, so far.

BASF – The chemical company has reached agreement to acquire German renewable raw materials company Cognis Holdings in a deal worth €3.1 billion, including debt.



Ireland

Overview

The Irish market retreated 5% last week, below the 3,000 level. One of the main downward movers was CRH, which fell by 10% on the back of several US homebuilders issuing weaker trading updates, along with disappointing US housing numbers.



Asia Pacific

Overview

Last week proved mixed for Asian markets, with Japan's Topix shedding 2% whilst, conversely, Hong Kong's Hang Seng Index gained 2%. Despite Australia's new Prime Minister, Julia Gillard, confirming that she is open to negotiations over the profit tax on resource companies, mining stocks such as Rio Tinto (-4.1%) and BHP Billiton (-3.8%) traded lower.

Bonds

Core bond markets performed well as investors moved away from risky equity assets towards safer assets. However, peripheral bond markets underperformed with Portuguese yield spreads against German bunds widening sharply. In addition, the cost of insuring against a Greek default reached a record high. The Merrill Lynch over 5 year government bond index remained relatively unchanged over the week.

Global Outlook

- Most forecasters remain optimistic that the global economy will expand by around 3.3% this year, although financial market volatility
 may jeopardise this somewhat. Inflation pressures globally are set to remain modest, reflecting weaker data in the US, Europe and
 Japan and offsetting strength in emerging economies and Asia. Bank lending is still weak and this is a worry. Another key issue is
 whether the private sector in Europe and the US can grow without continued massive government stimulus, especially when
 governments are divided as to how long such stimulus is required.
- The Greek and eurozone debt crisis has reawakened worries about sovereign creditworthiness, the long-term consequences of the credit burst and the unintended consequences of a myriad of policy actions.
- Short rates continue to be set at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Australia, Canada, India and China. However, it is clear that developments in Greece will temper the timing of policy changes across the globe, not just in the eurozone. It is notable that end-2011 rate expectations are still only fractionally above their cycle lows, meaning that investors expect that low rates will persist for some time.
- Inflation data, short rates, liquidity conditions and risk aversion continue to be of general support to the major bond markets such as Germany and the US. It is difficult to see any positive impact so far from ECB bond purchases and more measures will have to be adopted. Equally, it is clear that the longer-term success of the euro project will need a more far-reaching set of proposals than we have seen to date. Peripheral bond market spreads have been widening again and the situation is still very delicate. Investor conviction is low and the message from the authorities is not yet coherent enough to be persuasive.
- The modest decline in global equities so far this year masks very substantial volatility, three 8%+ falls and one 14% recovery. As mentioned above, it is likely that interest rates will remain lower for longer, especially in Europe, and this gives some forward support to risk markets. While the Chinese equity market has fallen by 20% this year, it is hard to judge the current stance of policymakers' rhetoric there. While global markets have recovered from recent lows, the continuing debacle in eurozone bond markets is a concern and further gyrations are likely before a clearer picture emerges. Ultimately, investors expect policymakers to continue to work against difficulties in credit markets but the journey to that end will be choppy.
- Currently, the funds are underweight in equities and overweight bonds, versus the manager average. Within equity sectors, the funds are reasonably balanced, with a reduced, but still overweight position in technology. Geographically, the funds are underweight in Ireland, the UK, the US and Europe, and are neutral in Japan and the Pacific Basin.

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