Eagle Star Investments

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Global Overview

Equity markets rebound

Equity markets recorded their best week of 2010 last week, following positive comments from the ECB and IMF, and an improvement in jobless claims and retail sales in the US. All eyes now shift to the earnings results for Q2.

ECB comments

As economists had expected, ECB policymakers left rates unchanged at 1% when it met last week. President of the ECB, Jean-Claude Trichet, was upbeat in his comments, saying that "indicators suggest that a strengthening of economic activity took place during the spring" and that inflation expectations "remain firmly anchored".

IMF expectations

Prior to what investors are hoping will be another positive earnings season, the IMF upwardly-revised its expectations for world economic growth for 2010. It sees expansion of 4.6% in 2010, up from its previous estimate of 4.2%. If this is the case, it would be the biggest gain since 2007.

Currencies

The euro gained against most currencies last week as demand for riskier assets rose following the upbeat comments from the ECB. The €/$ rate strengthened by 0.8%, to finish just above 1.26. This is a level not seen since early May.

Commodities

A report on fuel consumption showed that demand was increasing, raising expectations that supplies will begin to drop. This, along with the improved outlook for the world economy, led oil to its biggest gain of the year. Oil ended the week at $76 a barrel, a rise of 5.5%.

	Index	Year to Date Return 31.12.09 to 09.07.10		1 Week Return 02.07.10 to 09.07.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-3.1	7.7	5.0	5.1
US	S&P 500	-3.3	9.5	5.4	4.6
US	NASDAQ	-3.2	9.7	5.0	4.1
Europe	FT/S&P Europe Ex. U.K.	-3.1	-3.1	5.5	5.5
Ireland	ISEQ	-3.0	-3.0	1.4	1.4
UK	FTSE 100	-5.2	0.2	6.1	4.3
Japan	Topix	-5.1	13.2	3.6	1.8
Hong Kong	Hang Seng	-6.8	5.3	2.4	1.8
Australia	S&P/ASX 200	-9.7	-0.3	3.7	7.0
Bonds	Merrill Lynch Euro over 5 year Govt.	3.9	3.9	0.2	0.2

Global Equities

United States

Overview

US markets experienced their biggest weekly gains in a year as investors speculated that the recent falls have been overdone. This week marks the start of the Q2 earnings season, one which investors are hoping will see a further improvement in earnings-per-share figures.

Earnings – Alcoa is the first company to report earnings and analysts are expecting it to show a strong recovery following the loss reported at this time last year. JP Morgan and Bank of America are also among the big names to report this week. All three saw shares jump last week.

Europe

Overview

Improving sentiment ahead of the earnings season and views that the sell-off in equities over the past two months was overdone, helped European stocks to their biggest weekly gains in a year.

Banks – Banking stocks were the best performers last week, rising 10%. This comes ahead of the EU stress tests which will measure the health of their balance sheets amid slow economic growth. Regulators announced that the loss they have to assume on Greek and Spanish debt was well below prior estimates.

Ireland

Overview

The ISEQ was one of the weakest performers last week, following a disappointing statement from CRH and Deutsche Bank's view on Friday that AIB and Bank of Ireland were unlikely to pass the EU stress test.

CRH – In a trading update, the building materials company said first-half earnings and sales fell more than previously forecast. This would result in earnings missing estimates, causing shares to fall by 7% over the week.

Asia Pacific

Overview

Asian stocks continued the worldwide rally following the revision of economic growth upwards and an improvement in US retail sales. This was a factor in the jump in Sony's shares by 6%. For 2010, Asian markets are still sharply lower on fears that China's measures to avoid a bubble in property and curb inflation will slow economic growth.

Bonds

Bond markets were relatively unchanged over the week, despite the improving outlook for the eurozone economy and investor's return to riskier assets. The Merrill Lynch over 5 year government bond index rose by 0.2% over the week.

Global Outlook

- The general expectation is that the global economy will expand by around 3.3% this year, although financial market volatility adds to downside risks. Inflation pressures globally should remain modest, reflecting weaker data in US, Europe and Japan and offsetting strength in emerging economies and Asia. Bank lending remains weak and this is a worry. Another key question 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. It is clear that developments in Greece will temper the timing of policy changes across the globe, not just in the eurozone. To that end, 2011 rate expectations remain very close to their cycle lows in the US, UK and eurozone. Investors therefore expect that low rates will persist for some time.
- Disinflation concerns, low short rates, liquidity conditions and risk aversion continue to be of general support to the major bond markets such as Germany and the US. The impact of ECB bond purchases is pretty modest to date and it is possible that more measures will be needed at some stage. Equally, it is clear that the longer-term success of the euro project will require a more centralised fiscal framework than we currently have. Peripheral bond market spreads have been volatile again of late and the situation is still delicate. Investor conviction is low and the message from the authorities is not yet coherent enough to be persuasive.
- The 3% decline in global equities so far this year masks very substantial volatility, four 7%+ falls and one 14% recovery. With interest rate policy likely to remain easier for longer, especially in Europe, this gives some forward support to risk markets. In most equity markets, nervousness is still the order of the day with investors focusing on downside risks to forward economic data and corporate earnings. In that regard, the imminent US earnings' announcements will be important. Further volatility is quite possible after the recent fall and partial retracement. Ultimately though, we should not discount the determination of policymakers to attempt to offset risk aversion in equity and credit markets.
- Currently, the funds remain underweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are reasonably balanced, with a slight overweight in technology and underweight in basics. Geographically, the funds are underweight in Ireland, the UK, the US, and are neutral in Japan, Europe and the Pacific Basin.

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