Eagle Star Investments

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ZURICH

Global Overview

Equity markets rally strongly

Global equity markets performed strongly last week, with some indices reaching milestone levels, as optimism about the recovery story fuelled investor appetite. Sentiment was further enhanced by lessening of worries about the situation in Egypt, while numerous companies released expectations-beating earnings results.

US economic data

The US ISM-Manufacturing Index came in at 60.8, the strongest reading since May 2004, with new orders representing the leading component. However, latest non-farm payroll data disappointed.

UK economic data

UK PMI manufacturing and services data staged a rebound in January, triggering speculation that the Bank of England could start raising interest rates sooner than expected.

Eurozone interest rates & inflation

The European Central Bank's Governing Council left interest rates unchanged at 1%, as widely forecast. Despite eurozone inflation reaching 2.4% in January, the highest for more than two years, ECB President Jean-Claude Trichet adopted a less hawkish tone at the press conference than had been expected.

Currencies

In currency markets, the euro touched a high of $1.3861 against the dollar earlier in the week. By Thursday, however, the euro retreated after Jean-Claude Trichet tempered expectations of a near-term eurozone interest rate hike. The €/$ rate ended the week unchanged at 1.36.

Oil & Commodities

Despite reports of disruption at Egyptian ports, oil traded within a range to end the week at $89 a barrel, marginally down from the previous week. Amid fears of supply shortfalls, copper prices hit the $10,000 a tonne mark, rising by around 35% over the past year.

	Index	Year to Date Return 31.12.10 to 04.02.11		1 Week Return 28.01.11 to 04.02.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.5	2.6	1.9	2.6
US	S&P 500	4.2	2.6	2.7	3.0
US	NASDAQ	4.4	2.7	3.1	3.3
Europe	FT/S&P Europe Ex. U.K.	4.1	4.1	1.0	1.0
Ireland	ISEQ	3.5	3.5	3.3	3.3
UK	FTSE 100	1.7	3.3	2.0	3.8
Japan	Topix	4.1	0.9	1.7	1.6
Hong Kong	Hang Seng	3.8	2.0	1.2	1.6
Australia	S&P/ASX 200	2.5	-0.3	1.8	3.8
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.3	-0.3	0.4	0.4

Global Equities

United States

Overview

US equities surpassed a number of technical levels, with the S&P 500 Index closing above 1,300 for the first time in 29 months, while the Dow Jones surged above the 12,000 level. So far in the earnings season, 72% of companies have beaten expectations.

Earnings – The largest US chemical maker, Dow Chemical, reported better-than-expected fourth-quarter earnings, with joint ventures in glass and energy sectors performing well. Elsewhere, Pfizer's fourth-quarter 2010 results exceeded expectations as sales of legacy Wyeth products contributed to the profit. However, 2011 guidance was lower than consensus.

Europe

Overview

Renewed optimism that the global recovery remains on track, along with a good earnings' season, resulted in European markets ending the week 1% higher.

Legal & General – Shares in L&G hit their highest level in more than two years amid shareholder hopes of improved dividends at when it releases its results next month. The share price ended the week 3% higher.

Ireland

Overview

The ISEQ tracked the rest of Europe higher, ending the week over 3% up, on the back of upbeat US and European corporate earnings results.

Ryanair – The airline reported in-line third-quarter earnings, citing higher fuel costs and adverse weather conditions for the carrier's loss of more than €10 million.

Asia Pacific

Overview

Asian markets advanced further last week, benefiting from mostly upbeat earnings results and increased risk appetite among investors. However, volumes were subdued ahead of the Chinese New Year holidays in the second half of the week. Inflationary pressures remain a dominant concern in Indonesia, China and India. The Bank of Indonesia hiked by 0.25%, to 6.75%, as a precautionary step against inflation expectations. Japan's electronics giant Sony, posted a 5.9% fall in third-quarter profit, due to increased competition, a stronger yen and slower-than-expected TV sales.

Bonds

Despite improving economic data figures and investors moving away from safer assets towards risky equity markets, peripheral European bond markets performed reasonably well last week, as optimism rose that policymakers were making progress on a resolution to the eurozone crisis ahead of a European summit that began on Friday. The Merrill Lynch over 5 year government bond index gained 0.4% over the week.

Global Outlook

- Growth forecasts for 2011 remain fairly healthy. A strong Asia with some spreading inflation concerns is a familiar theme, as is a two-tier European economy. US growth is projected as steady this year after a good 2010. Inflation is forecast to remain a regional or country specific concern for investors, rather than a global problem; meanwhile, currency tensions are spreading more widely, as more countries seek to resist currency strength, and could become a focus for investors at some stage this year.
- Developed country central banks continue to set interest rates at emergency levels, although they have risen elsewhere already. In the US, UK and eurozone, 2011 rate expectations have risen by 0.3%, to 0.75% above their cycle lows. ECB commentary over the past few weeks has resulted in investors anticipating the first ECB hike before year end. However, given the precarious state of some of the peripheral economies, higher interest rates will be difficult to absorb. In addition, inflation concerns in the short-term may be over-exaggerated; so, on balance, we would continue to expect the ECB to stay on hold for some time to come.
- German and US long-term interest rates have risen by around 1% from their cyclical lows, in line with higher short-rate expectations and better growth numbers. Indeed, the general consensus is that German and US yields will rise further over the course of 2011. Meanwhile, spreads in peripheral eurozone markets continue to be another major focus of investors, with investors concerned that they are being softened up for sovereign default in certain countries. It remains unlikely that we will get through this peripheral debt crisis without a more comprehensive mechanism than currently on the table, but this debate ebbs and flows on a constant basis and investors react accordingly.
- Global equities are positive year-to-date and the general market expectation is for further gains during 2011, on the basis of reasonable valuations and mid-teens earnings' growth. The eurozone debt crisis continues to dominate country performance within Europe and this trend is likely to persist for some time. In the short-term, better earnings' numbers have helped shrug off worries about high oil prices, the crisis in Egypt and high sentiment numbers. We can expect gains during the year to be accompanied by volatility and we can anticipate unspecified "surprises" over the next 12 months, as experienced last year.
- Currently, the funds are neutral to slightly underweight equities and close to neutral bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight healthcare, with other positions reasonably balanced. Geographically, the funds are underweight in Ireland and the US, neutral in the UK and Japan and overweight in Europe, the Pacific Basin and other markets.

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