

Global Overview

Sentiment improves

Most markets gained strongly last week, after earnings worldwide and manufacturing data in the US showed further signs of improvement.

US Federal Reserve

After hinting at the idea a week ago, the Federal Reserve boosted the rate it charges for direct loans to banks for the first time since 2006. On Thursday, it raised the discount rate to 0.75%, from 0.5%. It hopes that this will encourage financial institutions to rely more on money markets, rather than the central bank, for short-term loans. The Fed also made clear that this is not a precursor to a tightening of US monetary policy, which operates via the 'Federal Funds rate', which remains close to zero.

US economic data

Industrial production, along with business conditions indices for New York and Philadelphia, continued to improve last month. All three beat forecasts, helping stocks offset the effect of a surprising increase in jobless claims last week.

Oil price

On commodity markets, the oil price climbed almost 8% over the week, due to the supportive industrial data in the US. Oil finished the week just below the \$80 a barrel mark.

Currencies

The euro was relatively unchanged over the past week, however, investors remain vigilant over the debt concerns surrounding Greece. The €/£ rate ended the week at 1.36.

	Index	Year to Date Return 31.12.09 to 19.02.10		1 Week Return 12.02.10 to 19.02.10	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-0.5	5.0	3.1	3.5
US	NASDAQ	-1.1	4.4	2.8	3.2
Europe	FT/S&P Europe Ex. U.K.	-2.6	-2.6	4.1	4.1
Ireland	ISEQ	-0.3	-0.3	2.3	2.3
UK	FTSE 100	-1.0	0.2	4.2	3.4
Japan	Topix	-2.0	4.9	-0.3	-2.0
Hong Kong	Hang Seng	-9.0	-4.1	-1.8	-1.4
Australia	S&P/ASX 200	-4.8	0.4	1.6	3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	0.9	0.9	-0.6	-0.6

Global Equities



United States

Overview

Last week saw the US markets experience their biggest gains in over three months, as industrial data pointed to a further improvement in the economy, which in turn is helping corporate profits. The boosting of the discount rate had been signalled by the Fed a week previously, softening the impact it had on markets.

Hewlett-Packard – HP rose by almost 5% after it raised its 2010 sales forecast for the second time in three months, resulting in it boosting its profit estimate above analysts' expectations. Technology stocks rallied on the back of this.

Financials – Bank of America gained 10% after the US lender said that overdue credit card payments declined in January, due to the surprise fall in the unemployment rate in January. Bank of America, along with JPMorgan Chase and American Express, three of the biggest card lenders, said late payments on credit card loans fell and are now at their lowest in a year.



Europe

Overview

European stocks posted their biggest weekly gain since July after a number of companies released expectation-beating earnings results. This, along with the US economic data, helped investor sentiment improve.

Barclays Bank – The UK's second-largest bank, Barclays, surged 19% after it announced 2009 profits which reassured investors on the outlook for the investment bank. Results were lifted by investment banking and the sale of its iShares fund management unit.



Ireland

Overview

The Irish market followed the rest of the world higher, almost returning to positive territory for 2010.

Bank of Ireland – After finishing the week relatively unchanged, shares in the bank fell by roughly 5% in early trading today, after the government was issued with €184m of its shares. The development will have the effect of diluting the existing shareholders in the bank and results in the State having a 15% stake in the bank, worth €250m.



Asia Pacific

Overview

Better-than-expected earnings results and strong industrial data helped Asian stocks gain early last week, but these gains were erased on Friday as investors fretted about the Fed's move to hike the discount rate. European and US markets did not react as negatively on Friday, resulting in Asian markets recovering strongly today.

Bonds

Eurozone bonds fell last week on concern that the Federal Reserve's move to end the emergency supply of liquidity and hiking the discount rate may prompt other nations' policy makers to follow suit. The Merrill Lynch over 5 year government bond index fell by 0.6% on the week.

Global Outlook

- The general expectation is that the global economy will expand by 3% this year, following a fall of just over 2% in 2009. A key issue is whether private sector demand in Europe and the US is strong enough to allow governments and central banks to withdraw some of the massive stimulus they have been providing. It is also notable that bank lending is still quite constrained. Partly for this reason, policy makers remain somewhat cautious on the economic outlook and this remains a key factor to watch during the year.
- Policy makers and academics continue to grapple with the long-term implications of the credit burst and the unintended consequences of policy actions. However, market participants work with a shorter time horizon and such longer-term worries tend to be aired only periodically, such as recently after equity market sentiment had deteriorated.
- Short rates continue to hover between 0% and 1% in the major economies, although other economies such as Australia have already increased rates. Investors are nervous about the withdrawal of low interest rates. Central bankers in the US and Europe are keen to remove emergency policy settings but don't want to do so prematurely, a balancing act which continues to be difficult to communicate, as last week's move by the Federal Reserve proves. Despite that, it is notable that end-2010 rate expectations in the US, UK and eurozone remain more or less at their cycle lows. On balance, therefore, investors expect that low rates will persist for some considerable time.
- For bond markets, inflation data has remained pretty supportive. As was the case for much of last year, 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 continue to keep bond markets in a broad trading range. Bond markets had been helped by the recent weakness in equity markets but prices have fallen back somewhat since then; they are probably in the middle of their price range at the moment with a weaker bias in the near-term. However, the fiscal woes in Greece have been the dominant concern so far this year. This story is still playing out, but it appears that some solution will be ironed out that helps both Greece and the credibility of the euro.
- Equity market optimism has been dented by an almost 10% correction from early 2010 highs. More worries over a hard landing in China, plus fiscal risks in the eurozone have offset strong corporate earnings. However, sentiment had probably swung excessively negatively, perhaps to a short-term extreme. Valuations are now reasonable, and we think that liquidity conditions should remain constructive. Near-term, markets have stabilised and look more likely to push slightly further ahead.
- 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 have gone much closer to neutral but are still overweight technology. Geographically, the funds are pretty neutral although they remain underweight in Ireland and slightly overweight in Japan and the Pacific Basin.

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