

## Global Overview

### Equity markets fall

Equity markets finished the week lower, as investors awaited further details on the rescue package for Greece and on the investigations into possible fraud charges being brought against Goldman Sachs. Further expectation-beating results and good economic data, including GDP in the US, failed to boost investor sentiment.

### Greece granted aid

Over the weekend, European ministers agreed to a €110bn rescue package for Greece, to prevent a default, which ministers are hoping will stop the worst crisis in the euro's history from spreading to other countries. The 16-nation eurozone region will pay €80bn and the International Monetary Fund will contribute the rest. As part of the deal, Greece agreed to severe austerity measures.

### US earnings results

So far, almost 78% of S&P 500 companies have beaten analysts' profit forecasts for Q1. This is close to the highest proportion ever recorded. Overall, analysts are expecting profits to have increased by 47% during the first quarter.

### Credit ratings

S&P Ratings lowered its rating on Greek debt by three steps to BB+, which is 'junk' or below investment-grade status. Portugal also had its rating cut by two steps, to AA-, while Spain's rating was cut by one, to AA.

### Commodities

Gold climbed to its highest level since early December due to concern that sovereign-debt risk may erode the value of currencies. It hit \$1,182 during the week, with the record being slightly higher at \$1,227, reached on 3rd December. The oil price finished at \$86 a barrel, a gain of 1%, after a Government report showed that US GDP for Q1 grew at an annual rate of 3.6%. This, however, was below economists' forecasts.

	Index	Year to Date Return 31.12.09 to 30.04.10		1 Week Return 23.04.10 to 30.04.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.8	11.5	-2.0	-1.5
US	S&P 500	6.4	14.9	-2.5	-1.8
US	NASDAQ	8.5	17.1	-2.7	-2.0
Europe	FT/S&P Europe Ex. U.K.	1.0	1.0	-2.7	-2.7
Ireland	ISEQ	14.2	14.2	-1.8	-1.8
UK	FTSE 100	2.6	4.8	-3.0	-2.8
Japan	Topix	8.8	16.3	0.9	1.8
Hong Kong	Hang Seng	-3.5	4.1	-0.6	0.1
Australia	S&P/ASX 200	-1.3	10.0	-1.5	-0.6
Bonds	Merrill Lynch Euro over 5 year Govt.	2.3	2.3	0.1	0.1

## Global Equities



### United States

#### Overview

US equities ended their winning streak as the Department of Justice sued Goldman Sachs and sovereign debt concerns weighed on markets following credit downgrades for Greece, Portugal and Spain, which investors fear will impact on economic growth.

**Airline merger** - United Airlines and Continental Airlines announced that they will merge to create the world's largest carrier, after both boards approved an all-stock transaction over the weekend. The newly-merged airline, which will keep the United name, will account for 7% of global airline capacity.



## Europe

### Overview

European stocks fell the most since early February following credit ratings downgrades for Spain and Portugal. This was a result of concerns that Greece's debt crisis will spread across the region.

**Barclays Bank** - The UK's third-largest lender fell almost 7% last week, following its announcement of a larger-than-forecast 26% fall in investment banking revenue during Q1. This, along with regulators' moves to sue Goldman Sachs, caused most banking stocks to fall.



## Ireland

### Overview

The Irish market tracked the rest of the world in moving lower, in what was a quiet week on the market. Attention this week turns to CRH's interim management statement.

**C&C** - On Friday, the drinks group announced that it has agreed to sell its spirits and liqueurs division for €300m. Its stock gained almost 5% following the announcement.



## Asia Pacific

### Overview

Some Asian markets inched higher last week, as better-than-estimated company earnings and outlooks boosted confidence of further economic growth worldwide. Worries surrounding Greece weighed on these gains though. In China, the Government is implementing new property measures in an attempt to cool the property market. These may include raising land taxes for luxury homes and developments, and also possibly limiting local families to owning a maximum of two homes.

## Bonds

Eurozone bonds moved slightly higher, but there was divergence between many countries' individual bonds. Greek bonds gained as a rescue package moved closer over the week, but its spread over German bonds still remains at a high level. The Merrill Lynch over 5 year government bond index rose 0.1% over the week.

## Global Outlook

- Most economists expect 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 very 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 have only a periodic concern for 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 Europe and the US, although rates have been increased in economies such as Australia and India. Central bankers in Europe and the US are keen to remove emergency policy settings but they do not want to do so prematurely, a message which has been tricky to communicate at times. Despite that, it is notable that rate expectations in the US, UK and eurozone are only 0.25% above their recent cycle lows. 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. Ireland has been caught in the wake in the past couple of weeks or so. We expect volatility will persist for some weeks yet, 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 been pushed higher of late on the back of stronger economic and earnings' data. 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 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.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

