

Global Overview

Volatility returned to equity markets

Equity markets remained choppy during the week, with the Greek sovereign debt crisis, along with Goldman Sachs fraud charges, dominating markets. However, by Friday, most markets had recovered somewhat, benefiting from strong corporate earnings' releases and upbeat US housing data.

US economic data

The latest number of Americans filing claims for unemployment benefits fell last week. Elsewhere, news that purchases of new homes surged 27% in March, coupled with an increase in durable goods orders, added to evidence that the economy is strengthening.

Greece requests EU-IMF rescue

Last Friday, Greece formally requested the EU-IMF to activate the financial rescue package worth up to €45 billion. The Greek request needs approval from 15 other euro-area countries including Germany. Moody's rating agency downgraded Greece's sovereign rating by one notch, to A3.

Eurozone economic data

The closely-watched Ifo Index confirmed that business confidence in Germany rose to a two-year high, to 101.6 in April, from 98.2 in March.

Currencies & Commodities

The euro remained under pressure, falling to a one-year low against the dollar intra-week, amid concerns over the outcome of Greece's fiscal deficit problems. The €/ \$ rate ended the week at almost 1.34. Having traded within a range earlier in the week, the oil price advanced after news that new US homes sales jumped in March, bolstering the appeal of commodities. The oil price finished at \$85 a barrel, a gain of 2.0%.

	Index	Year to Date Return 31.12.09 to 23.04.10		1 Week Return 16.04.10 to 23.04.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	6.9	13.2	0.6	1.3
US	S&P 500	9.2	17.0	2.1	3.1
US	NASDAQ	11.5	19.5	2.0	3.0
Europe	FT/S&P Europe Ex. U.K.	3.8	3.8	-0.5	-0.5
Ireland	ISEQ	16.3	16.3	3.7	3.7
UK	FTSE 100	5.7	7.8	-0.4	0.4
Japan	Topix	7.8	14.3	-1.1	-2.4
Hong Kong	Hang Seng	-2.9	4.0	-2.8	-1.9
Australia	S&P/ASX 200	0.2	10.6	-2.1	-1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	-0.7	-0.7

Global Equities



United States

Overview

Despite the turmoil caused by the Goldman Sachs fraud charge, US equities recovered strongly last week as corporate earnings' results continued to top analysts' estimates. The S&P 500 rose by 2.1% during the past five days, its seventh weekly rally in the past eight weeks.

Earnings releases - More than 80% of S&P 500 companies (including Microsoft, Xerox, Apple, Morgan Stanley, Goldman Sachs and Wells Fargo) that have reported first-quarter earnings have exceeded expectations. Goldman Sachs posted earnings of \$3.3 billion that topped Wall Street's view, as revenue from its trading business surpassed the rest of the industry.



Europe

Overview

Despite a number of companies providing positive earnings' results, markets finished the week slightly lower as the uncertainty about Greece's finances intensified.

Nokia - First-quarter results were in-line with expectations. However, the company issued disappointing guidance on handset numbers for Q2 2010.



Ireland

Overview

The Irish market was one of the best performers last week, gaining almost 4%, as some financial stocks rallied strongly. Bank of Ireland gained 5% with capital-raising news due out soon. CRH, which accounts for over 30% of the Irish stock market, advanced 10% due to robust US housing data.

Élan - The pharmaceutical company reported a better-than-expected operating profit of \$32.7 million for the first-quarter of 2010, achieved by increased sales in multiple sclerosis treatment, Tysabri, and first-time addition of revenue from new drug, Ampyra.



Asia Pacific

Overview

Asian equities continued their retreat, largely as a result of the recent measures announced by China to cool speculation on its property market. Japan's Canon Inc reported that first-quarter net profit more than tripled, boosted by demand for printers, Korean Tech and auto companies outperformed on stronger-than-expected results and market share gains.

Bonds

Eurozone bonds lost ground last week, as investors moved away from their perceived safety and into more risky equity and commodity markets. Greek government bonds traded within a volatile range and the two-year bond hit a new high of over 10% as investors sold out of the country's debt. The Merrill Lynch over 5 year government bond index fell by 0.7% 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 only have 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, India and China. 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. Hence, Greek spreads have deteriorated to their worst levels yet during the past few days, in a totally dysfunctional market. 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.

