

## Global Overview

### Equity markets relatively unchanged over week

The week began on a strong note in terms of risk appetite, on the back of solid corporate earnings results, along with European bank stress tests restoring investors' confidence in the banking system. By mid-week, however, the releases of disappointing key US economic data, pared back earlier gains, and most markets ended the week relatively unchanged.

### US economic data

The US Federal Reserve's latest Beige Book survey confirmed evidence of a slowdown, consistent with the latest second-quarter GDP number which disappointed markets. Durable goods orders in June came in weaker-than-expected, whereas initial jobless claims data surprised on the upside.

### Eurozone economic data

European inflation accelerated at its fastest pace in more than eighteen months as a result of rising energy costs. Elsewhere, eurozone economic sentiment rose strongly in July, boosted by strong figures from Germany.

### Currencies

Following negative sentiment towards the US economy and after the release of the long-awaited European bank stress tests, traders became more optimistic on the single currency. The €/£ rate rose above \$1.31, its highest since early May, before paring back the advance to end the week at \$1.30.

### Commodities

Oil traded within a narrow range, advancing briefly beyond \$79 a barrel before falling back, as fears emerged that US economic recovery would be slower-than-expected. The oil price ended the week unchanged at \$79 a barrel.

	Index	Year to Date Return 31.12.09 to 30.07.10		1 Week Return 23.07.10 to 30.07.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-1.2	7.8	0.1	-0.8
US	S&P 500	-1.2	8.5	-0.1	-1.6
US	NASDAQ	-0.6	9.1	-0.7	-2.2
Europe	FT/S&P Europe Ex. U.K.	-1.4	-1.4	0.2	0.2
Ireland	ISEQ	-2.0	-2.0	-0.1	-0.1
UK	FTSE 100	-2.9	3.7	-1.0	-0.7
Japan	Topix	-6.4	10.8	1.0	0.4
Hong Kong	Hang Seng	-3.9	5.4	1.0	-0.5
Australia	S&P/ASX 200	-7.7	2.0	0.8	0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	4.6	4.6	0.6	0.6

## Global Equities



### United States

#### Overview

Despite mostly upbeat corporate earnings results, weaker-than-expected US GDP data and evidence of a decline in manufacturing activity caused US equities to end the week slightly down. Of the 340 S&P 500 companies which have reported second-quarter results so far, 76% have exceeded expectations, 9% are in-line and 15% are below estimates.

**Earnings releases** – Exxon Mobil reported that second-quarter net income almost doubled to \$7.56 billion as oil prices have increased from a year ago. Chevron also reported a three-fold jump in quarterly profit, again beating expectations. Colgate-Palmolive posted a higher quarterly profit, benefiting from higher volume and pricing and an increase in its market share, but lower than expectations.



## Europe

### Overview

European markets ended the week in positive territory, as a number of Europe's leading companies reported stronger-than-expected earnings (BASF, Siemens, Royal Dutch Shell and Volkswagen). In addition, the banking sector outperformed following the publication of the stress tests and the proposed relaxation of capital liquidity rules by the Basle Committee.

**Royal Dutch Shell** – Europe's largest oil company reported that second-quarter net income jumped 94% to \$4.53 billion, resulting from a strong trading environment.

**Volkswagen** – Europe's largest car maker announced that second-quarter net profit soared due to higher vehicle sales and a weak euro boosting revenues earned abroad.



## Ireland

### Overview

The ISEQ tracked global markets and finished the week marginally down.

**Tullow Oil** – The oil company reported that it has found a major new field off the coast of Ghana, continuing its run of oil exploration success in Africa.



## Asia Pacific

### Overview

Both Hong Kong's Hang Seng and the Japanese Topix Index gained 1% over the week. Meanwhile, the Reserve Bank of India increased the rate at which it lends to banks, to 5.75% from 5.5%, while also raising its reverse repo rate to 4.5% from 4%, twice the increase that was expected.

**Samsung Electronics** – The South Korean electronics giant posted a record 83% net profit rise for the second-quarter, boosted by strong demand for computer-memory chips. Net profit rose to 4.28 trillion won (\$3.6 billion), from 2.33 trillion won year-on-year.

## Bonds

Peripheral bond markets such as Ireland and Portugal enjoyed a good week, compared with core markets which received limited support from the volatility in equity markets. The Merrill Lynch over 5 year government bond index rose by 0.6% over the week.

## Global Outlook

- The general consensus is that the global economy will expand by around 3.5% this year, although financial market volatility adds to downside risks. Inflation pressures globally remain modest, reflecting weaker data in the US, Europe and Japan and stronger readings in emerging economies and Asia. Bank lending remains weak and this is a worry. Exports are very strong from some European economies but domestic demand is subdued still and there remains concern about whether the private sector in Europe and the US can grow without continued massive government stimulus.
- The eurozone debt crisis had reawakened worries about sovereign creditworthiness, the long-term consequences of the credit burst and the unintended consequences of a myriad of policy actions – factors which periodically increase the risk concerns of equity investors. Investors have not been focused on such concerns of late, however.
- Central banks continue to set interest rates 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. 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, a view reinforced by the recent testimony by Federal Reserve Chairman, Ben Bernanke.
- These low short-term interest rates, combined with disinflation concerns, continue to be of general support to the major bond markets such as Germany, the US and Japan. Peripheral bond spreads in the eurozone have narrowed of late, with the general situation much calmer since Greece has fallen out of the investment grade universe. However, it is clear that the longer-term success of the euro project will require a more centralised fiscal framework than we have currently and it is likely that this issue will come to the fore again at some stage.
- The 1% fall in global equities so far this year masks very substantial volatility, four 7%+ falls, one 14% recovery and the recent 9% rally. Low interest rates certainly provide some forward support to risk markets and the reaction to a strong US earnings' season and European bank stress test has been more on the positive side than the negative. Sentiment and market action are positive and further gains are possible, although the pattern of the market this year makes us slightly cautious still.
- 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 and the US, and are neutral in Japan, Europe, the UK and the Pacific Basin.

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.

