

Global Overview

Equities inch higher

Most equity markets moved higher, some to two-year highs, during the week. Upbeat economic data, most notably in the US, outweighed sovereign debt and downgrading concerns in the eurozone.

US economic indicators

Retail sales, producer prices, industrial production and Philadelphia-region manufacturing rose more-than-expected in November, boosting the momentum of the economic recovery. For the first time since May 2009, nine out of the ten lead indicators, which gauge the outlook for growth for three to six months, improved during the month.

German business confidence

Business confidence in Europe's largest economy rose to a record in December, as domestic demand contributed to continued recovery in the economy.

Irish downgrade

Ireland's credit rating was cut late last week by yet another ratings agency, Moody's Investors Services. It cut Ireland's rating by five notches, from Aa2 to Baa1, and warned that the outlook was 'negative' as the country struggles to contain bank losses.

Currencies

The dollar gained 0.5% against the euro on stronger-than-forecast economic data and fears that Europe's debt crisis will spread, boosting the demand for the relative safety of the US currency. The €/£ rate ended the week just shy of 1.32.

Oil

The improvement in the leading economic indicators increased speculation that the recovery in the US will strengthen next year, boosting oil demand. This caused oil to gain, closing at \$88 a barrel, a gain of 0.3% over the week.

	Index	Year to Date Return 31.12.09 to 17.12.10		1 Week Return 10.12.10 to 17.12.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	10.0	20.6	0.4	0.7
US	S&P 500	11.6	21.5	0.3	0.8
US	NASDAQ	16.5	26.9	0.2	0.8
Europe	FT/S&P Europe Ex. U.K.	6.3	6.3	0.3	0.3
Ireland	ISEQ	-5.2	-5.2	-0.4	-0.4
UK	FTSE 100	8.5	13.3	1.0	-0.4
Japan	Topix	-0.5	20.1	1.7	2.0
Hong Kong	Hang Seng	3.9	12.8	-1.9	-1.4
Australia	S&P/ASX 200	-2.2	16.9	0.4	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	0.7	0.7	-0.9	-0.9

Global Equities



United States

Overview

On the back of further improvement in the economic indicators, US stocks rose for a third successive week. This helped push the S&P 500 Index to highs not seen in two years.

Oracle – Shares in the tech group rose 5% after profit for the current quarter was higher than analysts had forecast. The improvement in profit was attributed to its expansion into computer hardware.



Europe

Overview

Despite renewed concerns that Europe will fail to deal with the debt crisis, stocks in the region inched higher last week as data, not only in the region itself, showed improvement.

Banks – Lloyds announced that it expects to report a loss of €4.3 billion on impairments on losses from Irish loans, hurting shares. Meanwhile, while in Spain, Santander and BBVA saw shares fall after Spain's bond-rating was placed on review, as Moody's feels it will need to raise €170 billion next year.



Ireland

Overview

The Irish market finished the week lower as, for a second-successive week, a ratings company cuts its credit rating.

Bank of Ireland – The bank lost 18% of its value last week following Moody's cutting of Ireland's credit rating and warning of further downgrades being possible.



Asia Pacific

Overview

It was a mixed week for Asian stocks, with the Hang Seng Index bucking the worldwide trend with a fall of almost 2%. Most markets in the region got a boost from the economic data and China's decision during the week not to raise interest rates to try to cool inflation. HSBC, largest member of the Hang Seng Index, fell almost 2% on renewed European worries.

Bonds

Concerns over peripheral eurozone debt dominated bond movements last week. The downgrading of Ireland hurt other eurozone countries, most notably Portugal, as speculation mounted it would be next to seek aid. The Merrill Lynch over 5 year government bond index ended the week 0.9% lower.

Global Outlook

- Global growth forecasts for next year remain fairly healthy. Asian economies are still strong; indeed, parts of China's economy are still too strong for the authorities there. The global economy continues to be quite lopsided and the underlying strength of private sector demand in parts of Europe and in the US remains a key concern for policymakers. This is causing tensions within and between the major trading blocks. Inflation pressures overall remain modest, reflecting weaker data in developed economies and stronger readings in emerging economies and Asia, especially China.
- Central banks continue to set interest rates at emergency levels in Europe and the US, although they have been increased in some of the stronger economies such as Canada, India and China. In the US, UK and eurozone, 2011 rate expectations have risen by about 0.5% from their cycle lows. The ECB is keen to normalise monetary policy as quickly as possible and that is part of the reason for internal tension over its buying of peripheral bonds. However, given the precarious state of some of the peripheral economies, higher interest rates are not sustainable and we would expect the ECB to stay on hold for some time to come; for different reasons, the same conclusion applies to the Fed.
- German and US long-term interest rates have risen reasonably sharply from the cyclical lows, i.e. by almost 1% in the US and by 0.9% in Germany. We would expect that bonds in these markets should at least stabilise in the short-term, especially because rising yields are clearly counter to existing central bank policy, especially in the US. Spreads in peripheral eurozone markets continue to be another major focus of investors. The ECB's latest bout of bond buying has had a muted impact and the various machinations at EU political level have perplexed investors who are concerned that markets are being softened up for sovereign default, despite rhetoric to the contrary. Nonetheless, it remains unlikely that we will get through this peripheral country debt situation without a full scale, long-dated, ECB-funded mechanism.
- In what has been a year of high volatility, global equities have gained just under 10% so far and, in local currency terms, markets have recently made a new high for this year. In the short-term, markets still seem to be well supported, although some of the sentiment measures are quite high now, suggesting investors are fully invested; by implication, the fuel for near-term price gains may be limited. As we approach year end, investors will be hoping for continued positive markets into 2011. Any gains, however, are likely to come with plenty of volatility, just like 2010.
- Currently, the funds are neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and still a little light in the financial stocks, with other positions reasonably balanced. Geographically, the funds are underweight in Ireland and Europe, neutral in the UK and Japan, and overweight in 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.

