

Global Overview

Equities continue rising

Despite some weak economic data and inflation concerns, most equity markets continued higher over the week. Investors are optimistic about a further improvement in earnings results for Q4, which started being released last week.

US data

Consumer confidence in the US unexpectedly fell in December, as the high unemployment rate continued to weigh on sentiment. This was a factor in retail sales rising less-than-forecast during the month.

European inflation

Eurozone inflation rose in December, pushing the rate to 2.2%, up from 1.9% in November. This is the highest rate since October 2008.

China

China's central bank raised the bank reserve requirement ratio by 0.5%, to a record high of 19.5% for major banks. This is the fourth rise in two months.

Currencies

The euro had its biggest weekly gain against the dollar since May 2009 following strong bond auctions in Italy, Spain and Portugal. Further to this boost for the euro, the dollar also weakened against most major currencies after weak consumer confidence and retail sales data. These helped the €/£ rate end the week just shy of 1.33, a gain of 3.2%.

Oil

Oil continued to push higher, and hit a 2½ year high, after better-than-expected industrial production data in the US outweighed rising reserve and interest rate moves in Asia. Oil finished the week at \$90 a barrel, a gain of 2.7% over the week.

	Index	Year to Date Return 31.12.10 to 14.01.11		1 Week Return 07.01.11 to 14.01.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	2.3	2.6	1.2	-0.8
US	S&P 500	2.1	2.3	1.0	-2.2
US	NASDAQ	3.1	3.3	1.2	-2.0
Europe	FT/S&P Europe Ex. U.K.	2.6	2.6	1.8	1.8
Ireland	ISEQ	0.8	0.8	1.3	1.3
UK	FTSE 100	1.0	2.9	-0.4	-1.7
Japan	Topix	3.5	1.5	0.4	-2.7
Hong Kong	Hang Seng	5.4	5.6	2.5	-0.7
Australia	S&P/ASX 200	1.2	-2.2	2.1	-1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.4	0.4	0.3	0.3

Global Equities



United States

Overview

US markets rose as the upbeat outlook for corporate earnings overshadowed some disappointing economic data and the lingering worries surrounding Europe's debt crisis. This was the seventh straight week of rising markets in the US.

Earnings – JP Morgan reported record quarterly profit in Q4 2010. Its CFO said he is 'hopeful' the bank can raise its dividend during 2011. Intel gave the semiconductor sector a boost after it estimated Q1 2011 sales that were better than analysts had forecast. This is as a result of companies increasing spending on computers and servers. The sector rallied almost 5% during the week.



Europe

Overview

European markets gained over the week as investors speculated that the EU may increase the stability fund and government bond sales in the region were oversubscribed, calming fears that some countries would struggle to raise finance.

Spanish banks – The banking sector in Spain was one of the biggest gainers last week, as optimism grew that Spain would successfully restore confidence in the sector by restructuring it. Banco Santander and Banco Bilbao Vizcaya Argentaria jumped 13% and 16% respectively.



Ireland

Overview

The Irish market finished the week higher as CRH's 6% gain offset weakness in the banking sector.

C&C – The drinks company reaffirmed its full-year earnings guidance as sales of its Magners brand recovered in the nine months ending 30th November. Its shares rose 5% on the week.



Asia Pacific

Overview

Rising commodity prices, helping producers' profits and fears surrounding Europe's debt crisis easing helped Asian markets finish the week higher. Rising inflation is still a concern in the region and, along with China raising its banking reserve ratio, South Korea and Thailand increased their key interest rates during the week. Food and commodity prices are the main drivers of inflation in the region.

Bonds

Bond prices of some of the eurozone's most indebted countries rose last week after a series of successful auctions in Italy, Spain and Portugal. However, concerns that the ECB may need to raise interest rates to cool inflation pared bond gains overall. The Merrill Lynch over 5 year government bond index ended the week 0.3% higher.

Global Outlook

- Global growth forecasts for 2011 remain fairly healthy, albeit lower than last year. A strong Asia with some spreading inflation concerns is a familiar theme, as is a two-tier European economy. The US economy ended last year reasonably strongly and overall growth is set to be steady this year after a good 2010. Inflation is forecast to remain a regional or country-specific concern for investors, rather than a global problem. Meanwhile, currency tensions are spreading more widely as more countries seek to resist currency strength.
- Developed country central banks continue to set interest rates at emergency levels, although they have risen or are still rising in some of the stronger economies such as Canada, India and China. In the US, UK and eurozone, 2011 rate expectations have risen slightly further from their cycle lows. It is quite clear that the ECB wants to normalise monetary policy as quickly as possible, as can be seen from the last ECB meeting. However, given the precarious state of some of the peripheral economies, higher interest rates are not sustainable and inflation concerns in the short-term may be over-exaggerated; so, on balance, we would continue to expect the ECB to stay on hold for some time to come. The same conclusion applies to the Fed.
- German and US long-term interest rates have risen by around 0.9% from the cyclical lows, in line with higher short-rate expectations and better growth numbers. We still expect that bonds in these markets should at least stabilise in the short-term. If nothing else, rising yields are clearly counter to existing Fed policy, although the ECB's reaction to rising yields is more a concern about the periphery than Germany. However, the general consensus is that German and US yields will rise further over the course of 2011. Spreads in peripheral eurozone markets continue to be another major focus of investors. Despite the tightening in spreads so far this year, investors remain concerned that they are being softened up for sovereign default, despite rhetoric to the contrary. It remains unlikely that we get through this peripheral debt crisis without a full-scale, long-dated, ECB-funded mechanism.
- Global equities have started the year in a positive way and the general market expectation is for further gains during 2011, on the basis of reasonable valuations and mid-teens earnings' growth. The eurozone debt crisis continues to dominate country performance within Europe and this trend is likely to persist for some time. In the short-term, overall market sentiment measures are high, although not extreme, suggesting that the fuel for near-term price gains may be limited. We can expect gains during the year to be accompanied by volatility and we can anticipate unspecified "surprises" over the next 12 months, as experienced last year. Investors will need to be vigilant and active again during 2011.
- Currently, the funds are neutral equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight healthcare, with other positions reasonably balanced. Geographically, the funds are underweight in Ireland and Europe, neutral in the UK and overweight in Japan, 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.

