

Global Overview

Equities take a breather

Most equity markets fell last week as earnings disappointed and fears mounted that China will raise interest rates.

US data

The housing market showed some recovery last month as existing home sales rose 12%, to an annual rate not seen since last May. Further to this, building permits rose more-than-forecast and jobless claims declined by a further 37,000, the biggest decline in a year.

Germany

The main indicator of German business confidence took an unexpected jump in January. A strong export market to Asia and an improvement in household spending were the main contributors to this.

China

China's economic growth accelerated in Q4 to an annual rate of 9.8%. This strong growth has led to inflation rising 4.6% compared with one year previously, something its Central Bank has tried to cool over the past number of months.

Currencies

The euro gained against most currencies for a further week as analysts speculated that the ECB will devise a long-term approach to handle the region's sovereign-debt crisis. In the short-term, this may involve boosting the lending capacity of the European Financial Stability Facility. The €/£ rate rose 1.8%, to end the week at 1.36.

Oil

Higher stockpiles and fears that China will increase interest rates, cooling economic growth, caused oil to retreat from a two and a half year high last week. Oil ended the week at \$89 a barrel.

	Index	Year to Date Return 31.12.10 to 21.01.11		1 Week Return 14.01.11 to 21.01.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	1.7	0.3	-0.9	-2.2
US	S&P 500	2.0	0.4	-0.8	-2.5
US	NASDAQ	1.4	-0.2	-2.4	-4.1
Europe	FT/S&P Europe Ex. U.K.	2.8	2.8	0.2	0.2
Ireland	ISEQ	-1.4	-1.4	-2.5	-2.5
UK	FTSE 100	-0.1	0.8	-1.8	-2.8
Japan	Topix	1.3	-2.1	-2.1	-3.5
Hong Kong	Hang Seng	3.7	1.8	-1.7	-3.6
Australia	S&P/ASX 200	0.2	-4.7	-1.0	-2.8
Bonds	Merrill Lynch Euro >5 year Govt.	-0.2	-0.2	-0.6	-0.6

Global Equities



United States

Overview

Ahead of this week's Federal Reserve meeting, at which investors are expecting a statement about the ongoing \$600bn quantitative easing programme, markets finished the week relatively lower. Despite some upbeat economic data, these falls followed some disappointing earnings' releases.

Earnings – Bank of America announced more loan writedowns and a second straight quarterly loss, while results from Goldman Sachs also missed expectations due to lower revenue from trading and investment banking. General Electric bucked the trend and beat expectations due to industrial equipment orders and sales increasing for the first time since September 2008.



Europe

Overview

It was a negative week for most European markets as earnings from US and data from China spooked investors. Speculation that the ECB will step up its measures to help struggling economies supported markets, though.

Earnings – Volkswagen, Europe's largest carmaker in China, fell almost 10% as investors fear higher interest rates will hurt profits. EasyJet saw its shares decline 15% after it announced a pre-tax loss which is over double that of a year ago.



Ireland

Overview

The Irish market finished the week lower as Ryanair, following a poor outlook statement from its peer, EasyJet, slumped 10%.

Aer Lingus – Shares in the airline dropped 4% over the week, as a dispute with staff over new working arrangements resulted in a number of flight cancellations.



Asia Pacific

Overview

Asian markets fell amid concern that China's faster-than-expected economic growth may lead to higher interest rates to help combat inflation in the country. This caused commodity prices to retreat, hurting the shares of BHP Billiton, CNOOC (Chinese oil company) and many other commodity-related stocks. Volatility also picked-up in the Chinese stock market due to increasing policy risks.

Bonds

Bond prices fell, erasing the early-year gains, as investors fear that the rising cost of the bailing-out of peripheral countries will weigh heavily on Germany's finances. The Merrill Lynch >5 year government bond index ended the week 0.6% lower.

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 by 0.2, to 70% above their cycle lows. Following ECB commentary over the past few weeks, investors now expect the first ECB hike before year end. 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 over 1% from their 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, although 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 will get through this peripheral debt crisis without a more comprehensive mechanism than currently on the table, but this debate ebbs and flows on a constant basis and investors react accordingly.
- 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 to slightly underweight equities and a little 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 the US, neutral in the UK, Japan and Europe and overweight in the Pacific Basin and other markets.

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.

