

Global Overview

Investors look to safety

Late in the week, equities had their biggest falls since last November as tensions in Egypt escalated and the oil price rallied.

US data

Latest GDP data showed that the US economy expanded at an annual rate of 3.2% in Q4 2010, up from 2.6% in the previous quarter. Consumer spending was the main component to improve, climbing by the most in more than four years.

UK

Inflation in the UK rose 3.7% in December, compared with a year previously, and up from 3.2% recorded in November. It will be difficult for the Bank of England to hike interest rates, as the economy continues to struggle due to the austerity measures introduced by the Government.

Japan

As the country struggles to deal with an \$11 trillion debt burden, Japan's credit rating was cut by the S&P Ratings Agency to AA-. This is its first rating cut in nine years.

Currencies

On Friday, the dollar gained by the most in over three weeks against the euro, as political unrest in Egypt spurred a flight to the relative safety of the US currency. Despite this, the €/£ rate ended the week unchanged at 1.36.

Oil

Oil prices rallied on Friday on fears that Egyptian unrest could spread, leading to a disruption in Middle East oil supplies. Prior to this rally, oil had fallen in the early part of the week on economic concerns. Therefore, it finished the week at \$89 a barrel, relatively unchanged over the week.

	Index	Year to Date Return 31.12.10 to 28.01.11		1 Week Return 21.01.11 to 28.01.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	1.6	0.0	-0.1	-0.3
US	S&P 500	1.5	-0.4	-0.5	-0.8
US	NASDAQ	1.3	-0.6	-0.1	-0.3
Europe	FT/S&P Europe Ex. U.K.	3.1	3.1	0.2	0.2
Ireland	ISEQ	0.2	0.2	1.6	1.6
UK	FTSE 100	-0.3	-0.5	-0.3	-1.4
Japan	Topix	2.3	-0.7	1.0	1.4
Hong Kong	Hang Seng	2.5	0.4	-1.1	-1.3
Australia	S&P/ASX 200	0.6	-4.0	0.4	0.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.7	-0.7	-0.5	-0.5

Global Equities



United States

Overview

Despite expanding economic growth and rising new-home sales, US stocks fell, as concerns mounted that Egyptian tensions might spread and some earnings results disappointed. So far in the earnings season, 72% of companies have beaten expectations.

Earnings – Shares in Ford Motor Co. finished the week 9% lower after it announced profit was down 79% compared with a year ago. This was as a result of an unexpected loss in its European unit and rising costs of new models. Earnings guidance at Amazon.com and Johnson & Johnson also failed to meet analysts' expectations.



Europe

Overview

European markets were flat as inflationary concerns, in the eurozone and the UK, and a contraction of the UK's economy by 0.5% weighed on markets.

Banking sector – European bank shares reversed some recent strength as a plan by Spain's Government to improve its indebted savings banks failed to convince investors.



Ireland

Overview

The Irish market recorded a gain of 1.6%, with CRH and Ryanair (the latter reporting its latest earnings results this week) both rising.

AIB – The bank, which was once worth €24 billion, exited the main listing of the ISEQ last week and moved to the Enterprise Securities Markets, an index which caters for smaller companies. Its shares also fell another 4% during the week.



Asia Pacific

Overview

Asian stocks benefited from some upbeat earnings results and the fact that markets were closed prior to the Egyptian worries, which caused European and US markets to fall heavily on Friday. Samsung Electronics and Honda Motor Co. were two companies that reported good earnings results. Elsewhere, India's market continued its poor start to the year as food-price inflation contributed to interest rates being raised to a two-year high.

Bonds

Bond prices, of both core and periphery countries, fell due to speculation that the ECB will need to raise interest rates sooner than expected as inflation continues its upward trend. Irish and Spanish bonds were also hit by budgetary and banking concerns, respectively. The Merrill Lynch over 5 year government bond index ended the week 0.5% lower.

Global Outlook

- Growth forecasts for 2011 remain fairly healthy, albeit a little 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 projected as 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 0.15%, to 0.75% above their cycle lows. ECB commentary over the past few weeks has resulted in investors anticipating the first ECB hike will be before year end. However, given the precarious state of some of the peripheral economies, higher interest rates will be difficult to absorb. In addition, 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 1% from their cyclical lows, in line with higher short-rate expectations and better growth numbers. We 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, with investors 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 are positive year-to-date 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; the crisis in Egypt may be a catalyst for some further near-term uncertainty. 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 close to neutral 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.

