

## Global Overview

### Most equity markets extend gains

The re-emergence of eurozone debt fears, rising inflation levels and the interest rate hike by China were the dominant concerns last week. Despite this, most equity markets ended the week in positive territory (the main exceptions being China and Ireland), after better-than-expected US data releases boosted investor risk appetite. US and European markets ended the week at two-and-a-half year high.

### US economic data

Consumer confidence reached its highest level in eight months in February due to an improvement in the labour market and encouraging economic reports. Initial jobless claims showed a 36,000 decline to 383,000, the lowest total in 30 months.

### UK interest rates

The Bank of England's Monetary Policy Committee left UK interest rates unchanged at 0.5%, as expected. All attention will be on the UK Inflation Report due out on Tuesday.

### China

In an effort to rein in the country's high level of inflation, the People's Bank of China raised its benchmark lending and deposit rate by 0.25% each, to 6.06% and 3% respectively. Elsewhere, China's economy has surpassed that of Japan's, as the world's second-largest economy in 2010, after the US.

### Currencies

The dollar climbed 0.4% against the euro over the week, as fears over peripheral eurozone debt resurfaced. The €/€ rate ended the week at 1.35.

### Oil & Commodities

Oil prices fell to under \$86 a barrel, a drop of almost 4%, largely due to an-inventory build-up and easing worries after the resignation of Mubarak, the former President of Egypt. Copper prices reached another record high above \$10,000 a tonne, before easing back.

	Index	Year to Date Return 31.12.10 to 11.02.11		1 Week Return 04.02.11 to 11.02.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.2	3.0	0.7	0.4
US	S&P 500	5.7	4.5	1.4	1.8
US	NASDAQ	5.9	4.7	1.4	1.9
Europe	FT/S&P Europe Ex. U.K.	4.8	4.8	0.7	0.7
Ireland	ISEQ	3.0	3.0	-0.5	-0.5
UK	FTSE 100	2.8	4.3	1.1	1.0
Japan	Topix	5.3	1.2	1.2	0.3
Hong Kong	Hang Seng	-0.9	-2.3	-4.5	-4.2
Australia	S&P/ASX 200	2.9	-0.6	0.4	-0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.1	-1.1	-0.8	-0.8

## Global Equities



### United States

#### Overview

US stocks continued to move higher last week (to a two-and-a-half year high), as better-than-expected economic releases and the lessening of worries about the situation in Egypt, boosted investor sentiment.

**Earnings** – Technology bellwether, Cisco Systems results topped earnings forecasts but profit margin guidance disappointed. Elsewhere, IT-security company McAfee (which has agreed to be acquired by Intel), posted higher fourth-quarter net income and revenues, however, came in slightly behind market expectations.



## Europe

### Overview

Some disappointing corporate earnings results along with fears resurfacing that Portugal may be forced to seek international assistance for bail-out funds resulted in market volatility at times last week. Despite this, the European market gained 0.7% to end the week at a two-and-a-half year high.

**Nokia** – The world's top mobile phone maker endured a turbulent week, as analysts cut their recommendations and earnings forecasts after its deal to use Microsoft's software which is not well regarded and expensive to alternative options. The company's share price fell 14.2% on Friday to end the week 13.8% lower.

**Alcatel** – The stock was up 34% last week after an upbeat set of figures and encouraging message regarding its future growth and profitability targets.



## Ireland

### Overview

The Irish market put in a weaker performance than those of its European counterparts, declining by 0.5% on the week.

**Irish Banks** – Credit rating agency Moody's downgraded the un-guaranteed senior unsecured debt of six Irish banks.



## Asia Pacific

### Overview

Worries over inflation and interest rate rises increased investor nervousness over this region, prompting profit-taking and the Hong Kong Hang Seng Index ended the week 4.5% lower, its worst weekly fall for nine months. Despite rising inflation levels, South Korea's Central Bank elected to keep interest rates on hold.

## Bonds

Rising inflation concerns and the expected improvement in future US growth levels caused eurozone bonds to struggle last week. The yield on Portugal's 10-year government bond reached a high of 7.63%, the highest since the launch of the euro. This prompted the ECB to step into the market for the first time in weeks to buy the country's debt. The Merrill Lynch over 5 year government bond index fell 0.8% over the week.

## Global Outlook

- Expectations for economic growth this year remain fairly healthy. A strong Asia with some spreading inflation concerns plus a two-tier European economy are two familiar themes by now. In the US, growth is projected 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, and these could become a focus for investors at some stage this year.
- Developed country central banks continue to set interest rates at emergency levels, although they have risen elsewhere already. In the US, UK and eurozone, 2011 rate expectations have risen by 0.35% to 0.75% above their cycle lows. ECB commentary over the past few weeks has resulted in investors anticipating the first ECB hike before year end. However, given the precarious state of some of the peripheral economies higher interest rates may 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.
- German and US long-term interest rates have risen more than 1% from their cyclical lows, in line with higher short-rate expectations and better growth numbers. Indeed, the general consensus is that German and US yields will rise further over the course of 2011. Meanwhile, 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 in certain countries. It remains unlikely that we 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 risen by 3% in euro terms so far this year and the general market expectation is for further gains 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, better earnings' numbers have helped shrug off worries about high oil prices, the crisis in Egypt and high sentiment numbers. 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.
- 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, overweight in the US and Europe and neutral in the other regions.

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.

