

Global Overview

Global equity markets move higher

Global equities continued to move higher last week as better-than-expected data releases, along with a flurry of merger & acquisition activity, outweighed European debt worries and the uncertainty resulting from escalating tensions in the Middle East.

US economic data

The Philadelphia Fed's index of manufacturing activity in the US, soared to 35.9 in February from 19.3 in January, the strongest level for seven years. However, latest initial jobless claims numbers reflected a steep increase of 25,000 to 410,000.

US Federal Reserve Minutes

Minutes of the 25th-26th January Federal Reserve (Fed) policy meeting revealed a moderate improvement in the Fed's projections for economic growth in 2011. However, central bank officials remain concerned about the slow pace of improvement in the labour market.

UK Inflation Report

The UK Inflation Report revealed that the Bank of England predicts lower growth and higher inflation near-term than previously expected, raising expectations of interest rate rises.

Chinese inflation

Consumer prices rose by 4.9% in China in the year to January, up from 4.6% the previous month, but lower than expected. The People's Bank of China announced a 0.5% rise in the reserve ratio requirement for banks.

Currencies, oil & gold

The dollar weakened against most major currencies amid higher risk appetite. The €/£ rate ended the week at 1.37. Across commodity markets, the West Texan oil price rose to over \$86 a barrel, a gain of 1% on the week. In another measure, Brent crude oil prices hit a fresh two-and-a-half year high of over \$104 a barrel, due to political unrest in the Middle East. Gold hit a five-week high above \$1,390 a troy ounce, a gain of over 2%.

	Index	Year to Date Return 31.12.10 to 18.02.11		1 Week Return 11.02.11 to 18.02.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.6	4.2	1.3	1.1
US	S&P 500	6.8	4.4	1.0	-0.1
US	NASDAQ	6.8	4.5	0.9	-0.2
Europe	FT/S&P Europe Ex. U.K.	5.9	5.9	1.1	1.1
Ireland	ISEQ	4.2	4.2	1.1	1.1
UK	FTSE 100	3.1	5.0	0.3	0.7
Japan	Topix	8.3	3.4	2.8	2.2
Hong Kong	Hang Seng	2.4	0.0	3.4	2.4
Australia	S&P/ASX 200	4.0	0.9	1.1	1.5
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.9	-0.9	0.2	0.2

Global Equities



United States

Overview

US stocks continued to move higher last week, largely due to better-than-expected economic releases and encouraging corporate earnings. The S&P 500 index broke above 1,333, reaching twice the financial crisis low of 666.79, recorded on 9th March 2009.

Dell – The technology giant's fourth-quarter results topped analysts' estimates, bringing in revenue of \$15.7 billion and earnings of 53 cents a share, up from \$14.9 billion and 28 cents a share, respectively, in the same period last year. The company also reported that it expects revenue growth of between 5% and 9% in the fiscal year 2012.



Europe

Overview

Better global growth forecasts, along with upbeat US economic data, helped offset ongoing eurozone debt worries. As a result, European markets ended the week over 1% higher.

Sanofi-Aventis & Genzyme – French drugmaker Sanofi-Aventis clinched its long-sought deal for Genzyme Corp. with a \$20.1 billion cash offer, plus payments linked to the success of the US biotech group's drugs. Sanofi-Aventis and Genzyme's shares ended the week over 2% and almost 3% higher.



Ireland

Overview

The Irish market followed the rest of the world higher, above the 3,000 level, a 1% gain.

Irish Life & Permanent – Irish Life & Permanent issued a brief update cautioning that impairment provisions for 2010 will be €80 - 100 million above previous expectations, citing residential and commercial property valuations.



Asia Pacific

Overview

Rising commodity prices, positive company earnings and increased risk appetite dominated investor sentiment last week. Despite rising inflation being a key concern in the region, with China raising its banking reserve ratio (the fifth increase since October) in efforts to curb lending, Asian markets ended the week higher.

BHP Billiton – The world's largest miner almost doubled its first-half profit to a record \$10.7 billion (July to December) from \$5.7 billion, a year ago, due to record iron ore and copper prices. The company also announced a \$10 billion capital return programme to investors.

Bonds

Last week proved mixed for bond markets due to increased risk appetite while, at times, escalating political unrest in the Middle East provided support for the safe haven of bunds. Despite rising inflation concerns, increasing interest rate expectations and the expected improvement in future US growth levels, bonds managed to make modest gains over the week. The Merrill Lynch over 5 year government bond index gained 0.2% 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 0.25%, to 0.8% above their cycle lows. ECB commentary over the past few weeks has resulted in investors anticipating the first ECB hike before year end, even if it might be very difficult for some of the peripheral economies to absorb higher interest rates.
- 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 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 risen by 4% 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 other Middle East countries, 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 equities and slightly 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, 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.