

Global Overview

Equity markets fall

Concern surrounding Japan's nuclear crisis and violence in the Middle East caused equity markets worldwide to fall last week. Although there was some respite late in the week, these gains only pared the weekly losses.

UK economic data

Data released showed that UK consumer confidence fell to a record low in February. The stalling economic recovery and outlook for jobs were the main causes of concern.

Japan

In order to aide liquidity in the market and help limit the damage a strong yen would have on the economy, the Bank of Japan added 38 trillion yen (€331 million) to the money supply during the week. The yen has surged recently on concern that investors would repatriate assets to help pay for rebuilding devastated areas.

Portuguese rating

Moody's Investor Service cut the country's debt rating by two notches to A3. This is only four notches above 'junk' status and Moody's said it may make further reductions.

Currencies

The euro rose against most major currencies on speculation that the ECB will increase interest rates shortly. The President of the ECB, Jean-Claude Trichet, indicated that the bank still plans on raising rates next month, despite the fears that economic growth may be affected by recent events in Japan. The €/£ rate finished the week 2.1% higher, close to 1.42.

Commodities

Oil prices finished the week flat, at \$101 a barrel, after falling from close to \$104 towards the end of the week, following the announcement of a ceasefire in Libya.

	Index	Year to Date Return 31.12.10 to 18.03.11		1 Week Return 11.03.11 to 18.03.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-0.6	-4.7	-2.4	-4.1
US	S&P 500	1.7	-4.0	-1.9	-3.9
US	NASDAQ	-0.3	-6.0	-2.6	-4.6
Europe	FT/S&P Europe Ex. U.K.	-1.8	-1.8	-2.7	-2.7
Ireland	ISEQ	-3.4	-3.4	-2.0	-2.0
UK	FTSE 100	-3.1	-4.8	-1.9	-2.8
Japan	Topix	-7.6	-12.5	-9.3	-10.0
Hong Kong	Hang Seng	-3.2	-9.0	-4.1	-6.2
Australia	S&P/ASX 200	-2.5	-10.3	-0.4	-3.9
Bonds	Merrill Lynch Euro over 5 year Govt.	0.0	0.0	0.8	0.8

Global Equities



United States

Overview

The S&P 500 Index experienced its biggest drop since November on concerns that the nuclear threat and political violence may hurt the economic recovery. Utility stocks, which include power-related companies, and insurance companies, which derive significant profits from Asia, were amongst the biggest fallers over the week.

Technology

Global technology companies struggled during the week due to supply chain concerns in Japan. This is as a result of product shortages after events in the country have disrupted power, production lines and supply networks. Apple was a heavy faller, finishing the week 6% lower.



Europe

Overview

European markets fell the most in eight months as Japan continues to try to repair damaged cooling systems at one of its main nuclear power plants.

Energy – E.ON and RWE, the largest nuclear power operators in Germany, fell 9% after the German government said it will temporarily halt its seven oldest nuclear reactors as part of a safety review.



Ireland

Overview

The Irish market was in line with most European markets. CRH supported the market after it pared its weekly losses following upbeat earnings results from German company HeidelbergCement group.

Aryzta – The food company announced half-year results which were in line with market expectations.

Irish Continental Group – The ferry company delivered a good set of results, driven by strong performance from the passenger side of the business. The outlook statement, while cautious on the economic outlook, was robust.



Asia Pacific

Overview

Asian markets fell during the week as a result of the earthquake in Japan, which has caused production to cease in many regions of the world's third-largest economy. It was a good week for Korean stocks, though, as they benefited from Japanese production problems. China still fears that inflation is a bigger threat to the country than events elsewhere in the region, as it raised the banking reserve ratio for the third time in 2011.

Bonds

Following investors' aversion to riskier assets, eurozone bonds erased their 2011-to-date losses after they rose for the second consecutive week. Greek, Spanish and Portuguese bonds saw prices rise following last weekend's expansion of the eurozone bailout plan. The Merrill Lynch over 5 year government bond index rose 0.8% over the week.

Global Outlook

- Consensus expectations for global growth this year remain fairly healthy, albeit probably a little lower than previously thought due to the Japanese situation. Survey evidence points to stronger growth in some of the developed markets but growth peaking from high levels in some of the developing economies. Inflation is forecast to remain a regional or country-specific concern for investors, rather than a global problem, but there are some shared concerns, such as energy and food prices. Countries are still resisting currency strength, a sign that central banks are not yet particularly concerned about inflation.
- Developed country central banks continue to set interest rates at emergency levels, although they have risen elsewhere already. ECB commentary more-or-less guarantees a rate hike in April, earlier than had been anticipated by investors, even if it might be very difficult for some of the peripheral economies to absorb higher interest rates. The Fed may stay on hold for longer but rates are still anticipated to rise in the US in the next 12 months.
- 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, although they may stabilise or fall further in the immediate term, given the large rise to date and the recent volatility in risk assets. This month is set to produce another major EU policy announcement on the peripheral debt crisis, much of which has been previewed in the past weekend, but investors remain concerned that they are being softened up for sovereign default in the weaker eurozone countries.
- Global equities are about 4% lower in euro terms so far this year but there is still a general market expectation for gains during the year, on the basis of reasonable valuations and mid-teens earnings' growth. Equity markets had remained pretty resilient in the face of surging oil prices and political unrest in the Middle East, but recent events in Japan have been a catalyst for a correction of sorts. Rising bond yields have even been taken as a positive as they are deemed to reflect a "normalisation" of the global economy, following the financial crisis. Sentiment and survey measures are still reasonably optimistic and this has proven a strong factor so far this year. We can expect gains during the year to be accompanied by periods of volatility/corrections, one of which we are experiencing at the moment.
- Currently, the funds are underweight equities and neutral bonds, versus the manager average. Within equity sectors, the funds are overweight energy and underweight healthcare and financials, with other positions reasonably balanced. Geographically, the funds are underweight in Ireland, the UK and Europe, have a small overweight in Japan and are neutral in the US and 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.

