

Global Overview

Equity markets rally

Equity markets enjoyed another week of strong gains helped by upbeat economic data, along with further easing of the nuclear concern in Japan. In addition, investors remain optimistic about corporate earnings' results for Q1, which start being released next week.

US economic data

The US ISM manufacturing index recorded a healthy reading of 61.2 in March. US employment rose by a greater-than-expected 216,000, also in March. The Federal Reserve released more hawkish comments, suggesting that its quantitative easing programme could end in April.

Eurozone data

Eurozone inflation rose by 2.6% in the year to March, well above the European Central Bank's target of "below but close" to 2%. The ECB's Governing Council meets this Thursday amid expectation that it will announce the first hike in eurozone interest rates since July 2008.

Portuguese debt

Standard & Poor's cut Portugal's credit rating to the lowest investment grade of BBB- amid mounting fears that Portugal may have to seek financial assistance. This is one level above junk status and drove the yield on the country's ten-year government bond above 8%. Elsewhere, Greece also saw its ratings cut two grades to BB- and Ireland from A+ to BBB+.

Currencies

The euro strengthened 1% against the dollar last week, supported by a rise in eurozone inflation and expectations that the ECB is preparing to raise interest rates. The €/ \$ rate ended the week at 1.42.

Commodities

The oil price (West Texas) continued its 2011 rise, as unrest in the Middle East and North Africa triggered concern that supplies could be reduced while economic growth bolsters demand. It finished close to \$108 a barrel, a weekly gain of 2.4%.

	Index	Year to Date Return 31.12.10 to 01.04.11		1 Week Return 25.03.11 to 01.04.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.1	-0.2	1.7	1.5
US	S&P 500	5.9	-0.4	1.4	0.4
US	NASDAQ	5.2	1.1	1.7	0.7
Europe	FT/S&P Europe Ex. U.K.	3.2	3.2	1.5	1.5
Ireland	ISEQ	2.0	2.0	2.1	2.1
UK	FTSE 100	1.9	-1.0	1.8	1.4
Japan	Topix	-4.0	-12.9	0.6	-3.6
Hong Kong	Hang Seng	3.3	-2.9	2.8	2.0
Australia	S&P/ASX 200	2.5	-2.2	2.5	2.8
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.5	-1.5	-0.8	-0.8

Global Equities



United States

Overview

US stocks produced good returns for the week, following the release of encouraging non-farm payrolls and manufacturing activity data. This helped the S&P 500 Index to gain 5.4% in the first quarter of 2011.

Citigroup – The US banking giant reported that it is expecting to invest as much as \$2 billion over the next three years in its Asian consumer banking unit, as it aims to improve offerings and services to the region's growing middle class.



Europe

Overview

European stocks had a good week with better-than-expected economic data releases boosting investor risk appetite.

Unilever – The Chinese state planning agency requested that the consumer giant hold off on its plans to increase prices in China from April 1 onwards. Unilever was originally planning to increase detergent and soap prices, by up to 15%, citing rising raw material expenses.



Ireland

Overview

Ireland's remaining publicly-listed banks trading in a volatile range, after bank stress tests results show that the sector requires additional capital. However, the index ended the week over 2% higher.

Irish banks – The latest round of Irish stress test results show that banks require an additional €24 billion in capital as well as a radical overhaul. AIB requires €13.3 billion, Bank of Ireland €5.2 billion, Irish Life & Permanent €4 billion and EBS €1.5 billion, taking the bailout total so far to €70 billion. Under the country's new restructuring plan, Bank of Ireland will remain an independent bank and AIB will absorb EBS.



Asia Pacific

Overview

Most Asian markets enjoyed a positive week as confidence in the global recovery improved, and worries over the Middle Eastern conflict and the Japanese earthquake disaster took a backseat. Key reasons for the boost in equity markets included improving data in the US, along with a healthy Chinese Purchasing Managers Index (PMI), signalling continued expansion.

Bonds

Strong economic data over recent months along with rising inflation rates have focused investors' minds on the likely end dates of accommodative monetary policy in Europe and the US, with the ECB's upcoming meeting on April 7 expected to result in the first rate increase since 2008. German bond yields declined over the week, while Portugal also remained in focus as the likely next candidate to enter the EFSF mechanism. Portuguese debt is now rated BBB- by S&P, just above junk status. The Merrill Lynch over 5 year government bond index fell 0.8% over the week.

Global Outlook

- Economists expect global growth to remain fairly healthy this year, albeit probably a tad lower than previously thought because of a weaker Japanese economy. 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 remains 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. After recent ECB commentary, investors expect a rate hike this week, earlier than previous expectations, 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. Recent EU policy initiatives regarding the peripheral debt crisis have had little impact on Portugal or Ireland, but Spanish bond spreads have behaved reasonably well. The reaction to last week's Irish bank stress tests will be interesting to see but, in general, investors are still concerned that they are being softened up for sovereign default in the weaker eurozone countries.
- Amidst a volatile first quarter, global equities are more-or-less flat in euro terms, 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 and have recovered much of the Japan-induced falls. Rising bond yields have been taken reasonably well 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. After a two year bull run and when expectations are already high, plenty more volatility/corrections can be expected, even if the net outcome turns out to be a positive one.
- 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.

