

## Global Overview

### Mixed week for equities

Fears surrounding another Japanese earthquake overshadowed the release of encouraging US labour data and positive investor sentiment as a result of the Portuguese bailout announcement. Most equity markets had a mixed week, with the Hong Kong market gaining the most.

### US economic data

The number of initial jobless claims filed by unemployed Americans fell by 10,000 to 382,000. This is the fourth consecutive week in which claims have declined. The minutes from the Federal Reserve latest meeting revealed a divergence of views over interest rate policy.

### Eurozone data

As expected, the European Central Bank raised its benchmark interest rate by 0.25%, to 1.25%, the first tightening in three years. ECB President Jean-Claude Trichet commented that this move is intended to maintain price stability in the face of rising inflation concerns. Elsewhere, the Bank of England left interest rates steady at 0.5%, as widely expected.

### Portuguese bailout

Portugal has followed Greece and Ireland in asking for aid from Europe's bailout reserve and the IMF. Last week, caretaker Portuguese Prime Minister Jose Socrates announced that his country will request international assistance to ease its rapidly worsening financial situation.

### Currencies

The dollar hit a 15-month low last week as US interest rates looked like they would stay at ultra-low levels while the ECB delivered its first interest rate rise since the start of the financial crisis. The euro strengthened 1.5% against the dollar, also supported by the recent rise in eurozone inflation levels. The €/ \$ rate ended the week at over 1.44.

### Commodities

The oil price (West Texas) climbed higher last week, with recent optimism over global demand compounded by further supply disruptions in the Middle East and North Africa. The West Texas oil price finished close to \$113 a barrel, a weekly gain of 4.5%, while Brent crude broke above \$126 a barrel on Friday, the highest level in 32 months.

	Index	Year to Date Return 31.12.10 to 08.04.11		1 Week Return 25.03.11 to 08.04.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.2	-1.3	0.2	-1.1
US	S&P 500	5.6	-2.1	-0.3	-1.8
US	NASDAQ	4.8	-2.9	-0.3	-1.8
Europe	FT/S&P Europe Ex. U.K.	3.7	3.7	0.5	0.5
Ireland	ISEQ	2.8	2.8	0.8	0.8
UK	FTSE 100	2.6	-0.3	0.8	0.8
Japan	Topix	-5.1	-16.0	-1.1	-3.5
Hong Kong	Hang Seng	5.9	-1.8	2.5	1.2
Australia	S&P/ASX 200	4.1	-0.6	1.6	1.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.7	-1.7	-0.2	-0.2

## Global Equities



### United States

#### Overview

Despite initial risk appetite on the back of upbeat economic data from the previous week, US stocks ended the week slightly lower, as news of another earthquake in Japan increased investor nervousness.

**Earnings season** – Alcoa, the aluminium maker, will kick off a busy week for earnings results and should offer a glimpse into the US economy's strength.



## Europe

### Overview

European stocks edged higher over the week, with shares in Portuguese banks moving higher on the news of the recapitalisation of Intesa San Paolo and Commerzbank.

**Vodafone & Vivendi deal**– Vodafone has announced that it is to sell a 44% stake in the French mobile phone operator SFR to Vivendi, in a deal worth almost €8 billion. This deal would give Vivendi complete control of SFR as it already owns 56% of the company.



## Ireland

### Overview

The Irish market mostly followed the rest of the world, logging a 1% gain over the week.

**Irish banks** – The Irish Minister for Finance, Michael Noonan announced that the AIB and Bank of Ireland deposit outflow position has improved since the recent publication of the stress test results. Both banks are expected to comment further on the current trend when they report 2010 results over the coming week.



## Asia Pacific

### Overview

Asian markets (ex-Japan) ended the week over 2% higher, with China's building materials and industrials stocks leading some of the rally. The People's Bank of China announced another increase in its benchmark interest rate of 0.25%, making the fourth rate hike since the beginning of 2010. Japan's Topix Index fell 1% as another earthquake struck the coast of Japan, increasing investor nervousness. In other news, the Australian dollar hit a 29-year high against the US dollar as buoyant risk appetite boosted demand for commodity-linked currencies.

## Bonds

Eurozone bonds were hurt by a combination of inflation concerns, stronger German export data and the interest rate hike announced by the European Central Bank on Thursday. In other news, Portugal was finally forced to apply for funding aid from the EU/IMF. The Merrill Lynch over 5 year government bond index fell 0.2% over the week.

## Global Outlook

- The global purchasing managers' survey appeared to have rolled over – albeit from a relatively high level – and this is consistent with economists' forecasts that global growth rates, while being fairly healthy again this year, have also peaked. 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 last week's ECB rate hike investors expect that rates could rise by a further 0.75% by year end - even if these increases might be difficult for some of the peripheral economies to absorb. The Fed may stay on hold for longer but rates are still anticipated to rise on 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. Spanish bond spreads have behaved well and the reaction to the Irish bank stress tests has been positive – with spreads narrowing from their record highs - but the Portuguese loan announcement was much-anticipated and, so far, there has been no positive reaction there. It still is the case that investors are concerned that they are being softened up for sovereign default in the weaker eurozone countries.
- Amidst a volatile start to the year, global equities are slightly negative in euro terms but have been pretty resilient in the face of surging oil prices, political turmoil in the Middle East and the Japanese disaster. To date, rising bond yields have also been taken reasonably well as they are deemed to reflect a "normalisation" of the global economy following the financial crisis. There is still a general market expectation for gains during the year on the basis of reasonable valuations and mid-teens earnings' growth. However, changes to earnings' expectations have become much less positive, and this tends to be tricky for markets; a choppy consolidation period is possible for now.
- 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, are neutral in the US and Japan and are overweight in the Pacific region.

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.

