

Global Overview

Equity markets extend gains

Worries that Greece may have to restructure its debt combined with the shock of Standard & Poor's cutting the outlook for US sovereign debt influenced choppy markets in the early part of last week. However, strong first-quarter earnings results and upbeat US data releases triggered optimism, resulting in most equity and commodity markets gaining over the week.

US economic data

Latest initial jobless claims fell 13,000 to 403,000, lower-than-expected, but still above the closely-watched 400,000 level.

S&P debt warning

Rating agency Standard & Poor's cut its outlook on US sovereign debt, from "stable" to "negative", implying there is a one in three chance it could downgrade the country's AAA credit-rating within two years.

Currencies

The dollar fell to its lowest level in more than sixteen months against the euro, as rising risk appetite on the back of robust earnings and expectations that the US Federal Reserve will keep interest rates unchanged at the April 26-27 meeting, prompted investors to sell the currency. The €/ \$ rate ended the week at 1.46, a gain of 1%.

Commodities

The weakness in the US currency along with the improvement in risk appetite drove the oil price higher last week. The West Texas oil price finished above \$112 a barrel, a weekly gain of over 2%. Elsewhere, gold reached another record high of over \$1,500 per troy ounce, as investors sought the safety of the precious metal.

	Index	Year to Date Return 31.12.10 to 22.04.11		1 Week Return 15.04.11 to 22.04.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.2	-1.4	1.2	0.8
US	S&P 500	6.3	-2.3	1.3	0.6
US	NASDAQ	6.3	-2.4	2.0	1.2
Europe	FT/S&P Europe Ex. U.K.	3.0	3.0	0.9	0.9
Ireland	ISEQ	2.5	2.5	0.2	0.2
UK	FTSE 100	2.0	-0.7	0.4	0.9
Japan	Topix	-6.3	-14.7	0.1	0.9
Hong Kong	Hang Seng	4.8	-3.8	0.5	-0.2
Australia	S&P/ASX 200	3.6	-0.2	1.3	2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.2	-1.2	0.2	0.2

Global Equities



United States

Overview

US stocks moved higher last week, with a slew of excellent quarterly earnings results, in particular from the technology (Intel, Qualcomm, Apple, Yahoo and IBM) and industrial sectors (Honeywell, United Technologies) boosting investor confidence. The Dow Jones Industrial Average hit its highest level for almost three years at over 12,500.

Earnings – So far, US earnings overall are round 7.5% higher than expectations for Q1. Intel reported first-quarter earnings of \$3.16 billion, a 30% increase from the same period a year ago. Elsewhere, IBM boosted its full-year profit forecast reflecting higher demand from companies eager to upgrade computer systems. Apple also reported its latest quarterly earning results, with both revenue and profit soaring versus one year ago. The iPhone was, by far, the largest revenue driver, with sales jumping to 18.6 million, over 100% growth compared to one year earlier.



Europe

Overview

European stocks pushed ahead by almost 1% with the support of forecast-beating quarterly earnings from both US and European companies.

Nokia – Although first-quarter earnings fell to €344 million compared with €349 million in the previous year's quarter, the results came in ahead of estimates. In other news, the company announced that it has signed a contract with Microsoft, whereby it will outfit its new Smartphones with Microsoft's Windows Phone operating system.



Ireland

Overview

The Irish market followed the rest of the world higher.

Elan results – The Irish drug maker reported better-than-expected earnings after sales of its multiple-sclerosis drug Tysabri pushed first-quarter earnings 3% higher year-on-year. The company has also revised its full-year earnings forecast upwards.



Asia Pacific

Overview

Speculation that Chinese authorities may have to adopt further measures to cool its economy resulted in market volatility at times last week. However, Asian markets gained marginally over the week with shares rising of those companies expected to play a major role in Japan's reconstruction. Last week, Japan's government proposed a special \$50 billion (4 trillion yen) budget to help finance the country's reconstruction efforts and plans to build 100,000 temporary homes for survivors of the earthquake and tsunami.

Canon – First-quarter results were better-than-expected at Canon despite a 2% year-on-year decline in net income. Reducing guidance for full-year earnings also came as no surprise given the earthquake disruption.

Bonds

Despite improving economic data figures, upbeat earnings results and investors moving away from safer assets towards risky equity markets, peripheral sovereign debt worries and the US's credit-rating outlook being cut by S&P, resulted in European bond markets making gains last week. The Merrill Lynch over 5 year government bond index ended the week 0.2% higher.

Global Outlook

- The Global purchasing managers' survey appeared to have rolled over – albeit from a relatively high level – and this is consistent with the general expectation that global growth rates, while being fairly healthy again this year, have probably 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.
- Interest rates in some developed countries remain at emergency levels, although they have risen elsewhere already. After the recent 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 in the first quarter of 2012.
- 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 but the initial positive reaction to the Irish bank stress tests did not last with spreads now back to their widest levels. The Portuguese loan announcement was much anticipated and, so far, there has been no positive reaction there. With talk of Greek "restructuring" becoming more prevalent, it still is the case that investors worry that they are being softened up for sovereign default in the weaker eurozone countries.
- Amidst a volatile start to the year, global equities are still 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 a tricky for markets. A choppy consolidation period is more likely for now, with the reaction to the current US earnings' announcements being important in that regard.
- Currently, the funds are underweight equities and neutral bonds, versus the manager average. Within equity sectors, the funds have become more defensive, with an underweight position in industrials as well as healthcare and financials. Geographically, the funds are underweight in Ireland, the UK and the US, closer to neutral in Europe 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.

