

Global Overview

Further equity market volatility

Disappointing economic data releases and uncertainty about a resolution to the escalating Greek debt crisis increased volatility across equity markets last week. In particular, worries about Asian inflation and the strength of the US recovery resulted in most equities trading lower, with Asian markets falling the most.

Greece

Eurozone finance ministers postponed a final decision on extending €12 billion in emergency loans to Greece, stipulating that it must first introduce harsher austerity measures.

US economic data

US retail sales fell in May, for the first time in almost a year, due in large part to a sharp drop in car sales. Elsewhere, the University of Michigan consumer sentiment index in June slipped by more than expected amid renewed concerns about the outlook for the economy.

UK data

UK retail sales declined 1.4% during May, much steeper than the 0.6% fall forecast, and reversed the rise seen in April due to high energy prices and job uncertainty.

Chinese inflation

Despite the government's efforts to rein in rising food prices, China's inflation hit its highest level in 34 months, gaining 5.5% in May, compared to the same month last year.

Currencies

Worries that a possible default in Greek sovereign debt could spread to other indebted peripheral countries weighed heavily on the euro last week, sending it to a three-week low against the dollar. The €/€ ended the week at 1.43, almost 1% lower.

Oil

In commodities, oil prices tumbled amid fears of spluttering US economic growth. The West Texas oil price fell \$6, to end the week at \$93 a barrel, a decline of over 6%.

	Index	Year to Date Return 31.12.10 to 17.06.11		1 Week Return 10.06.11 to 17.06.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-1.0	-5.1	-0.5	-0.3
US	S&P 500	1.1	-5.5	0.0	0.6
US	NASDAQ	-1.4	-7.8	-1.0	-0.5
Europe	FT/S&P Europe Ex. U.K.	-1.8	-1.8	-0.1	-0.1
Ireland	ISEQ	0.1	0.1	0.1	0.1
UK	FTSE 100	-3.1	-6.1	-0.9	-0.8
Japan	Topix	-10.4	-15.1	-1.5	-0.8
Hong Kong	Hang Seng	-5.8	-12.2	-3.2	-2.8
Australia	S&P/ASX 200	-5.5	-8.4	-1.7	-0.7
Bonds	Merrill Lynch Euro over 5 year Govt.	0.6	0.6	-0.3	-0.3

Global Equities



United States

Overview

Persistent concerns about faltering economic recovery and uncertainty about Greek sovereign debt dominated market sentiment last week. Despite US equity markets turning increasingly volatile, hopes of a resolution to the debt crisis came late in the week and resulted in the S&P 500 narrowly avoiding a seventh straight weekly decline.

Research in Motion – The BlackBerry smart phone maker's share price fell heavily to a four-and-a-half year low, after first quarter results fell short of expectations as the company struggles to compete with Apple's iPhone. The Canadian company also lowered its earnings expectations for the full year and is looking to slash job numbers.



Europe

Overview

European markets fell for a further week due to worries over the global economic recovery story and the eurozone debt crisis.

Carrefour – Amid fierce competition from rivals in France, shares at Europe's largest retailer fell heavily after the company announced that first-half results would be below expectations.



Ireland

Overview

The Irish market ended the week marginally in positive territory, with heavyweight stock CRH driving the ISEQ forward.

CRH – Despite the latest Euroconstruct forecast expecting that Europe will exit its fourth year of contraction in construction output more slowly than previously expected, CRH, which accounts for 25% of the ISEQ, ended the week 2% higher.



Asia Pacific

Overview

Concerns that Europe's debt crisis could spiral out of control, combined with worries over China's stubbornly high inflation level, caused Asian equity markets to retreat over the week. The latest inflation figure prompted China's central bank to increase its reserve requirement ratio for banks for the sixth time this year. The Reserve Bank of India also raised interest rates, its tenth hike in 16 months, after data revealed that annual inflation exceeded 9% in May. Elsewhere, shares of the highly-priced luggage maker Samsonite fell 8% on their first day of trading amid investor pessimism about the global economy.

Bonds

Despite disappointing economic data figures and risk aversion returning to equity markets being notable positives for core bond markets, eurozone bonds lost out to US government bond markets. Indeed, worries surrounding peripheral countries escalated further, sending the cost of insuring against government default in Greece, Ireland and Portugal to record levels. In Spain, the yield on government bonds rose to an 11-year high. The Merrill Lynch over 5 year government bond index ended the week 0.3% lower.

Global Outlook

- Leading indicators of economic activity suggest that global growth rates have probably peaked for now and forecasters are beginning to lower their forecasts. Inflation remains more of a regional or country-specific concern for investors - particularly in some Asian countries - rather than a global problem but there are some shared concerns, such as energy and food prices. To date, there are no major countries actively seeking currency strength, an indicator that central banks are not yet particularly concerned about inflation.
- Official interest rates in the US and eurozone remain close to emergency levels. Investors continue to push out the timing of the first Fed rate increase, which is now put at September 2012. Meanwhile, expectations for further ECB rate hikes before year end have remained at around 0.4% for some weeks now. However, the ECB faces a difficult balancing act, with the peripheral economic position a considerable complication to its decision-making. It is plausible that its rate hiking cycle will be very short.
- Although forecasters continue to anticipate that German and US long-term interest rates will rise during the course of the year, the recent fall from their cyclical peaks may extend further amid concerns over a growth slowdown. While some concerns are beginning to emerge over Spanish bond spreads, these have been fairly modest to date - but could become more substantial - but the major concern still rests with Greece. Investors are experiencing "periphery fatigue" with a seemingly endless series of announcements and crisis talks on the matter. Talk of "restructuring" in Greece is centre-stage, with investors also pricing for significant sovereign default in both Portugal and Ireland.
- Amidst a volatile start to the year, global equities are down 5% in euro terms. Even so, they have been pretty resilient in the face of the bad news that has hit markets this year such as surging oil prices, political turmoil in the Middle East, the Japanese disaster and the euro debt crisis. There is still a general market expectation for gains during the year on the basis of reasonable valuations and earnings' growth. Actual earnings' data has been better than expectations of late, although changes to earnings' expectations have become less positive lately. In the short term, more talk of peripheral default, concerns over more aggressive Chinese monetary tightening and the peaking of global growth expectations may cause some further risk aversion. However, sentiment has become negative in the recent past and may justify consolidation before investors' positive conviction levels return.
- Currently, the funds are underweight equities and modestly overweight bonds, versus the manager average. Within equity sectors, the funds are underweight financials and pharmaceuticals and overweight technology. Geographically, the funds are underweight in most areas but remain overweight 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.

