

Global Overview

Equities gain

Despite increased volatility at times, risk appetite returned to equity markets late in the week, as Europe's leaders took significant steps towards dealing with the region's sovereign debt crisis. Investors focused on better-than-expected quarterly earnings and increased merger & acquisition activity, allowing equities to make solid gains over the week.

Second bail-out package for Greece

Eurozone leaders announced the second rescue package of €109 billion for Greece, with a new agreement of easier loan terms and private creditors shouldering part of the burden via a debt exchange.

Chinese Flash PMI manufacturing

Preliminary data for a purchasing managers' index revealed that China's manufacturing may contract for the first time in a year as output and new orders drop.

Greece's rating

Rating agency Moody's cut Greece's sovereign debt by three notches to Ca, just one notch above default.

Currencies

The euro touched a two-week high against the dollar last week, as confidence rose that the €109 billion rescue package for Greece agreed at the EU summit could contain the eurozone's debt crisis. The €/ \$ rate ended the week at 1.44, a gain of 1.5%.

Oil & gold

In commodities, the oil price (West Texas) rose almost 3% on the week, as the International Energy Agency ruled out the new release of strategic oil reserves, to end the week at almost \$100 a barrel. Elsewhere, gold fell from a record high of \$1,609 per troy ounce but managed to regain the \$1,600 level on Friday.

	Index	Year to Date Return 31.12.10 to 22.07.11		1 Week Return 15.07.11 to 22.07.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.3	-0.6	2.0	0.9
US	S&P 500	6.9	-0.5	2.2	0.7
US	NASDAQ	7.8	0.3	2.5	0.9
Europe	FT/S&P Europe Ex. U.K.	-1.1	-1.1	2.3	2.3
Ireland	ISEQ	1.5	1.5	2.3	2.3
UK	FTSE 100	0.6	-2.1	1.6	1.1
Japan	Topix	-3.3	-6.9	1.1	0.3
Hong Kong	Hang Seng	-2.6	-9.5	2.6	1.1
Australia	S&P/ASX 200	-3.0	-4.2	2.9	3.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.1	-0.1	0.8	0.8

Global Equities



United States

Overview

US stocks produced good returns for the week, with investors choosing to shrug off worries over the eurozone debt crisis and the US deficit issue, focusing instead on better-than-expected corporate earnings releases. In M&A activity, pharmacy benefit manager Express Scripts bid for competitor Medco in a deal worth \$29 billion.

Earnings – Apple announced its best ever quarter, strengthened by strong sales of its iPhones and iPads, and record sales of its MAC computers. The firm's revenues came in at \$28.57 billion, up 90% year-on-year, with profits up 124% to \$7.3 billion. The stock gained almost 8% over the week and ended the week at a record high. Elsewhere, better earnings also came from Coca-Cola, General Electric, Honeywell, IBM and Microsoft. However, heavy equipment maker Caterpillar's earnings missed estimates.



Europe

Overview

European markets had a good week, boosted by optimism that Europe's leaders would make progress in dealing with the region's debt crisis.

Ericsson – Despite strong quarterly sales, the mobile network maker reported lower-than-expected earnings, after factoring the costs of restructuring from job losses into account.



Ireland

Overview

The Irish market finished the week over 2% higher, in line with the rest of the world.

Bank of Ireland – The State has agreed a deal with a group of private investors which could mean they will put around €1.1 billion into the bank in return for a significant minority stake.

Ryanair – The airline reported that revenue for its first fiscal quarter to the end of June rose by 29% to €1.16 billion, matching analyst forecasts, and added that it was maintaining its 2012 net profit forecast of €400 million.



Asia Pacific

Overview

Most Asian markets enjoyed a positive week, lifted by positive earnings' reports and steps aimed at resolving Europe's debt crisis. The Japanese Topix index and Hong Kong's Hang Seng index rose by 1% and almost 3% respectively. Elsewhere, the Australian market also performed well, logging a gain of almost 3%. In economic news, preliminary data on manufacturing PMI in China showed a contraction to 48.9 from 50.1 in June.

Bonds

Eurozone bond markets traded in a volatile manner last week, due to sovereign debt concerns and any delay to the US debt ceiling being raised. However, peripheral bond spreads narrowed sharply late in the week as the outcome from the EU summit agreement was better than expected. The cut in the interest rate charged to Ireland, Portugal and Greece and the plans for increased flexibility in the EFSF are viewed as positive steps also. The Merrill Lynch over 5 year government bond index ended the week 0.8% higher.

Global Outlook

- Forward indicators of economic activity suggest that global growth rates have probably peaked for the moment. The key question for investors is whether this is a mid-cycle pause or something more significant and that is being hotly debated at the moment. Inflation remains more of a regional or country-specific concern for investors, particularly in some Asian countries, but there are some shared global concerns, such as energy and food prices. So far, there are no major countries actively seeking currency strength, and this is a significant indicator that central banks are not yet particularly concerned about inflation.
- Official interest rates remain at emergency levels in the US and investors expect this situation to persist for another 12 months or so. Rates are very low in the eurozone despite recent increases and future rate expectations remain contained, with only a small chance of another 0.25% increase before year end. The balancing act facing the ECB is still very problematic, with the peripheral economic position a considerable complication to its decision-making. Partly because of this risk, it is plausible that this new hiking cycle will be quite a short one.
- The outcome of last week's EU summit saw a significant narrowing in the spreads of Greece, Ireland and Portugal amid hopes from governments that their decisions have quelled the eurozone peripheral crisis. Spanish and Italian spreads also erased much of their recent increases. While the crisis may have paused for now, it is unlikely that this is the end, partly because the decisions announced are not yet supported by actual monies. It is likely that the conviction behind the latest decisions will be tested over the coming weeks and months. Long-term interest rates in the US and German remain on a neutral to downward trend - despite US debt ceiling negotiations and a "resolution" of the eurozone debt crisis - and we are likely to see further falls ahead.
- In what has been a volatile year, global equities are broadly flat in euro terms. That said, equity markets have performed reasonably well in the context of 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. The current earnings' season in the US has helped sentiment in the short term, with most companies so far matching or exceeding expectations and no great concerns expressed for the period ahead. We remain concerned that further slow-down concerns have yet to be fully discounted by investors, so the current rebound may offer opportunities to tactically reduce equity weightings.
- Currently, the funds are close to neutral in equities and bonds on a tactical basis, versus the manager average. Within equity sectors, the funds are underweight financials and overweight technology. Geographically, the funds are underweight in Ireland and the UK, neutral in the US, Europe and Japan and 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.

