

## Global Overview

### Volatility continues

Markets finished what was yet another volatile week, lower, due to fears that global economic growth is slowing and that the eurozone debt crisis is escalating.

### US bond yields

With investors looking for a safer asset class in which to invest, bond markets have seen inflows which have pushed the yields of 5, 7 and 10-year bonds to record lows.

### Economic growth

With the US housing market failing to show signs of recovery and consumer sentiment at low levels, JP Morgan and Citigroup cut US economic growth estimates for the next two quarters. Morgan Stanley went further and cut its estimate for global growth.

### Eurozone debt worries

Finland, along with The Netherlands, Slovenia, Austria and Slovakia, all expressed a desire to receive collateral in exchange for further loans to help Greece's debt situation.

### Currencies

The euro gained against the dollar last week as European officials boosted efforts to curb the region's debt crisis. The €/ \$ rate ended the week at 1.44, a gain of 1.2%. The yen appreciated against the dollar to a post World-War II high. This has spurred speculation that the Bank of Japan will move to weaken the currency and protect its export trade.

### Oil & gold

The oil price (West Texas) continued its recent falls on concern that economic growth is stalling and will be hurt further by the sovereign-debt crisis in the eurozone. The weakening dollar helped it pare some of its losses and it ended the week at \$82 a barrel, a fall of 3.7%. Gold ended the week over 6% higher at \$1,852, yet another record high.

	Index	Year to Date Return 31.12.10 to 19.08.11		1 Week Return 12.08.11 to 19.08.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-13.1	-16.7	-4.3	-5.2
US	S&P 500	-10.7	-17.1	-4.7	-5.8
US	NASDAQ	-11.7	-18.1	-6.6	-7.7
Europe	FT/S&P Europe Ex. U.K.	-20.8	-20.8	-6.5	-6.5
Ireland	ISEQ	-16.1	-16.1	-4.0	-4.0
UK	FTSE 100	-14.6	-15.9	-5.2	-4.8
Japan	Topix	-16.4	-17.5	-2.1	-2.7
Hong Kong	Hang Seng	-15.8	-22.1	-1.1	-2.3
Australia	S&P/ASX 200	-13.6	-18.1	-1.7	-1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	5.6	5.6	2.3	2.3

## Global Equities



### United States

#### Overview

US stocks fell for a fourth successive week as weak economic data and pressure surrounding the banking system increased fears of a double-dip recession. The sharp falls over the past month have pushed valuations to the lowest level in two-and-a-half years.

**Stocks** – Industrial and resource stocks were among the heavy fallers following the cutting of economic growth forecasts. Caterpillar and Alcoa both fell over 8% over the week.



## Europe

### Overview

European markets fell heavily as fears escalated that the region's leaders will fail to restore confidence hurt by its debt crisis.

**European banks** – With signs of a tightening in bank funding markets, European banks were the biggest drag on the Stoxx 600 Index last week. Royal Bank of Scotland, Lloyds Banking and Danske Bank led the index lower with falls of 22%, 16% and 15% respectively.



## Ireland

### Overview

The ISEQ fell 4% during the week, with CRH slumping over 8%.

**CRH** – The company announced expectations-beating results for the six-months to the end of June, last week. However, it warned that downside risks remain as economic growth estimates are reduced. This has resulted in some analysts cutting its earnings forecasts.



## Asia Pacific

### Overview

The global growth concerns pushed Asian markets lower also. Consumer stocks were among the best performers, while industrials and technology shares suffered the heaviest falls. Even HSBC, one of the 'perceived safer banks', dropped by 3% on concern that a worsening of the debt crisis in Europe could freeze interbank markets and affect funding.

## Bonds

German bunds joined US Treasuries at record lows after another strong week for the safe-haven asset class. Greek yields went the opposite direction as difficulties in approving a second bailout remain following Finland's, and other countries', requests for collateral. The Merrill Lynch over 5 year government bond index rose 2.3% last week.

## Global Outlook

- Current and forward indicators of economic activity suggest that global growth rates have likely peaked for the moment. Recent forward-looking growth indicators have fallen to close to recessionary levels in the US and have also been weak in Europe. Inflation has been 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. However, some of these could dissipate if growth moderates further. So far, there are no major countries actively seeking currency strength, a key indicator that central banks are not concerned about inflation.
- Official interest rates remain at emergency levels in the US and, given this month's explicit statement from the Fed, investors expect this situation to persist for another two years; two-year US rates have just reached a new low of 0.19%. The balancing act facing the ECB is very problematic, with the peripheral economic position a considerable complication to its decision-making. Rates are very low in the eurozone, despite recent increases, and future rate expectations have flipped over with some reduction now expected before year end. This change of direction seems correct and validates the idea that the current hiking cycle would be very short.
- The ECB buying of Italian and Spanish bonds has had a positive impact but the ECB's commitment to this buying is a subject of some debate, both inside the ECB and elsewhere. Investors have been debating the merits and the likelihood of eurobonds being introduced to quell eurozone sovereign concerns – but political will is questionable and the situation remains fluid and sentiment fragile. The US debt ceiling debacle has resulted in a temporary fix that could come back quickly to investors' attention and the downgrade by S&P complicates matters. However, US treasuries are likely to continue to receive flows amid equity market volatility and continued uncertainty in Europe. Overall, it appears that long-term interest rates in the US and Germany remain on a neutral to downward trend. More EU action is likely but it remains to be seen whether the peripheral debt crisis has been fully addressed.
- In what has been a volatile year, global equities are down around 17% in euro terms, although the vast bulk of that fall happened in the past three weeks. Valuations are reasonable but investors are now questioning the path of future corporate profits, given renewed economic growth worries. The consensus expectation for gains during this year has taken a battering recently, although a lot can happen between now and the year end. Currently, we remain concerned that further slow-down concerns have yet to be fully discounted by investors despite recent negative price action. However, in the short term, markets could rebound somewhat given the recent sharp sell-off which has put them into oversold territory.
- Currently, the funds are closer to neutral in equities (having added exposure recently) and neutral bonds versus the manager average. Within equity sectors, the funds remain underweight financials and overweight technology. Geographically, the funds are underweight in Ireland and the UK, neutral in Japan, neutral to overweight in Europe and the US and 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.

