

Global Overview

Markets rebound

Despite mixed economic data releases, most equity markets recorded their best weekly returns for almost three months, as the decision by the European Central Bank to pump dollar liquidity into European banks and to establish swap lines with major central banks, boosted investor confidence. As a result, investors switched out of the safety of gold and core bonds and into riskier asset classes.

US economic data

The University of Michigan preliminary index of consumer sentiment came in better-than-expected. Elsewhere, US retail sales stalled in August compared with the previous month.

European Ecofin meeting

The latest European Ecofin meeting proved inconclusive with finance ministers failing to reach agreement on the Greek bailout. The decision to extend the next €8 billion tranche of bailout funds for Greece has now been delayed until October.

UK retail sales

Latest figures show UK retail sales contracted in August, with sales volumes down 0.2% in the month, raising expectations of possible quantitative easing from the Bank of England.

Currencies

The euro dropped to a recent low of 1.35 against the dollar on Monday, as worries that Greece would default on its debt intensified. However, the euro recovered as the week progressed, in particular after global central banks joined forces to provide dollar liquidity to the market. The €/ \$ rate ended the week at 1.38, a gain of almost 1%.

Oil & gold

In commodities, supply disruptions and improved investor sentiment boosted demand for oil. As a result, the West Texas oil price ended the week at \$88 a barrel, almost 1% higher. The gold price fell 2.3% on the week, on safe-haven selling with investors turning their attention towards equity markets, ending at \$1,814, a fall of over 2%.

	Index	Year to Date Return 31.12.10 to 16.09.11		1 Week Return 09.09.11 to 16.09.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-8.1	-9.6	3.3	2.7
US	S&P 500	-3.3	-6.3	5.4	4.5
US	NASDAQ	-1.2	-4.2	6.3	5.4
Europe	FT/S&P Europe Ex. U.K.	-19.6	-19.6	2.8	2.8
Ireland	ISEQ	-13.4	-13.4	2.2	2.2
UK	FTSE 100	-9.0	-10.7	2.9	1.6
Japan	Topix	-14.5	-12.6	1.6	1.4
Hong Kong	Hang Seng	-15.5	-18.4	-2.1	-2.9
Australia	S&P/ASX 200	-12.6	-14.1	-1.1	-2.6
Bonds	Merrill Lynch Euro over 5 year Govt.	5.0	5.0	-0.1	-0.1

Global Equities



United States

Overview

The US S&P 500 index bounced from oversold levels, gaining 5% over the week, to close above the important mark of 1,200 points on Thursday for the first time in more than two weeks.

Research In Motion – The Blackberry maker reported a sharp drop in quarterly profit last week, after announcing disappointing sales of its new tablet products. In addition, sales of Blackberry's were weaker-than-forecast. Adjusted net profit fell 47% to \$419 million and the share price ended the week over 19% lower.



Europe

Overview

European markets recovered some of their recent losses, with some banks bouncing strongly from oversold positions. Co-ordinated central bank action to provide unlimited 3-month funding helped sentiment. Equities ended the week almost 3% higher, as investor fears over the eurozone debt crisis eased.

UBS – The Swiss bank surprised markets after it announced that unauthorised trading had resulted in losses of around \$2.3 billion. The bank's share price ended the week almost 3% lower.



Ireland

Overview

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



Asia Pacific

Overview

Some Asian markets declined over the week amid weaker-than-expected data releases. In particular, Australian business confidence fell in August as investors fretted over concerns of contagion from Europe and the US. As a result, the Hong Kong Hang Seng's index fell over 2% while Australian equities fell 1%. In other news, the Reserve Bank of India raised interest rates for the twelfth time in eighteen months, by 0.25% to 8.25%, in a bid to curb inflation.

Bonds

After initially hitting new record lows early in the week, core bond yields moved higher after global central banks joined forces to soothe investor nervousness, by providing dollar liquidity to European banks in an effort to ease funding pressures. The latest Italian debt auction proved disappointing with borrowing costs increasing as conflicting reports about fresh eurozone support for debt laden Greece emerged. Overall, the Merrill Lynch over 5 year government bond index ended the week 0.1% lower.

Global Outlook

- Indicators of economic activity suggest that global growth rates have peaked for now. Investors are concerned that this is a more than a mid-cycle pause and is, perhaps something more significant. Inflation has been more of a regional or country-specific concern for investors, particularly in some Asian countries, but there have been some shared global concerns, such as energy and food prices; however, some of these should dissipate if growth moderates further. Additionally, there are no major countries actively seeking currency strength – the opposite is the case if anything - a key indicator that policymakers are not concerned about inflation.
- Short-term interest rates remain at emergency levels in the US and the Fed have recently committed to these levels for another two years. Rates will likely be cut soon in the eurozone, validating the view that this year's hikes were premature - and more easing should be expected globally in the midst of the growth slowdown and financial market stresses.
- The ECB buying of Italian and Spanish bonds had some initial positive impact but stresses re-emerged quickly due to worries over the ECB's commitment to the programme, worries validated by the recent resignation of its (German) chief economist. A sense of extreme nervousness pervades the eurozone bond markets at the moment. The situation is very fluid with the prospect of a Greek default being a major concern. To date all of the various measures announced have not solved the problem, and it remains to be seen how politically feasible some of the proposed "solutions" are. German and US bond yields are making new lows amid a global flight to large developed bond markets (excluding the eurozone peripheral markets). While yields could rise in the near term if equities recover some of their losses, long-term interest rates could stay very low for a further considerable period of time.
- In what has been a volatile year, global equities are down around 10% in euro terms, the vast bulk of that fall happening in the last two weeks. Valuations may be reasonable but investors are now questioning the path of future corporate profits, given renewed economic growth worries; worries over bank funding costs and banks' exposures to peripheral government debt also loom large. Investors are also incorporating risks with regard to fiscal sustainability, default in the eurozone and even the future of the euro itself. We remain concerned that further slow-down concerns have yet to be fully discounted by investors despite recent negative price action. In the immediate term, there is a sense that investors have lost faith in the ability of policymakers in the US and Europe to control events; further falls are quite possible if investors remain in this mindset. Currently, the only offsets to this is that sentiment is very negative, often a time at which markets temporarily bottom – and some further policy action could assuage near-term nervousness.
- Currently, the funds are closer to neutral in equities and bonds versus the manager average. Within equity sectors the funds remain underweight financials and overweight technology. Geographically, the funds are underweight in Ireland, the UK and Europe, neutral in Japan and overweight in the US and 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.

