

Global Overview

Equity markets rally

Most major equity markets rallied strongly from Thursday onwards, as eurozone policymakers finally announced a sovereign debt and bank recapitalisation plan from Brussels. This development, combined with broadly strong corporate earnings' results and encouraging economic data, increased investor optimism and lifted most equity and commodity markets. However, much of the positive sentiment has been quashed overnight with the announcement from the Greek Prime Minister calling for a referendum, raising the prospects of derailing Europe's bailout efforts.

European rescue plan

Last Thursday, EU leaders provided further detail on the measures to solve the region's debt crisis. These measures include boosting the EU bail-out fund from €440 billion to €1 trillion, recapitalising the region's banks and requesting bondholders to accept a 50% write-down on the value of their Greek debt holdings.

US data

In line with estimates, US GDP expanded by an annualised 2.5% in the third quarter, up from 1.3% in the previous three months and the fastest pace for a year.

China PMI

China's Purchasing Managers' Index for the manufacturing sector came in better-than-expected, rising to 51.1 in October compared with 49.9 in September.

Currencies & oil

In currency markets, the euro gained against the dollar after EU leaders provided some detail on the European Union rescue plan. The €/ \$ rate ended the week at 1.42, a gain of over 2%. Amid improved risk appetite and some seasonal supply concerns, the West Texas oil price rose 7%, to end the week above \$93 a barrel. Gold also enjoyed a strong week, trading above \$1,750 an ounce for the first time in a month, boosted by dollar weakness.

	Index	Year to Date Return 31.12.10 to 28.10.11		1 Week Return 21.10.11 to 28.10.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-2.7	-6.2	4.3	3.4
US	S&P 500	2.2	-3.6	3.8	1.5
US	NASDAQ	3.2	-2.6	3.8	1.5
Europe	FT/S&P Europe Ex. U.K.	-11.9	-11.9	4.8	4.8
Ireland	ISEQ	-4.5	-4.5	4.8	4.8
UK	FTSE 100	-3.4	-5.7	3.9	2.9
Japan	Topix	-14.2	-13.2	3.7	2.1
Hong Kong	Hang Seng	-13.1	-17.9	11.1	8.9
Australia	S&P/ASX 200	-8.3	-9.3	5.1	6.7
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	0.4	0.4

Global Equities



United States

Overview

The S&P 500 index rose for the fourth-successive week, by almost 4%, boosted by optimism about the eurozone debt crisis deal along with upbeat earnings. The S&P 500 index, along with the Dow and NASDAQ indices, is now in positive territory for the year as of Friday's close.

Earnings – Of the 327 companies of the S&P500 companies which have reported for the third quarter, 70% have announced expectations-beating earnings. Exxon Mobil's quarterly profit rose 41%, with higher oil and natural gas prices more than compensating for lower production levels. Elsewhere, drug maker Merck & Co. reported that third-quarter profit climbed to \$2.9 billion on strong sales of some of its key medicines in the US, and in newer emerging markets.



Europe

Overview

European equities ended the week almost 5% higher (with Germany's DAX gaining over 6%), as investors responded positively to European leaders' announcement of a plan to tackle the region's debt crisis.

Credit Suisse – The banking giant announced that third-quarter net profit rose 12% from a year ago, to 683 million Swiss francs, but reported a plan to cut its workforce by 3%.

Royal Dutch Shell – The oil giant almost doubled its third-quarter earnings compared to a year ago, on higher energy prices and project start-ups in Qatar and Canada.



Ireland

Overview

The Irish market followed global equity markets higher, adding almost 5% over the week.

Elan – The drug maker reported a quarterly profit of \$674 million versus a loss of \$47.8 million, one year earlier, with revenue from Tysabri up 28% year-on-year.



Asia Pacific

Overview

Solid data releases worldwide, along with news of a European agreement, lifted Asian markets last week. Hong Kong's Hang Seng index rose over 11%, the strongest week in two years after a strong Chinese industrial activity report. Elsewhere, the Japanese Topix index gained over 5%. In other news, the Reserve Bank of India raised interest rates for the 13th time since March 2010, by 25 basis points to 8.5%, in an attempt to rein in rising inflation levels.

Bonds

Some main European bond markets performed well over the week in response to the possibility of a resolution to the ongoing Eurozone debt crisis. However, a series of Italian bond auctions disappointed and along with a continued sell-off of some troubled European economies resulted in 10-year Italian bond spreads rising above 6%. The Merrill Lynch over 5 year government bond index ended the week 0.4% higher.

Global Outlook

- Indicators of economic activity suggest that global growth rates have peaked for now although some of the recent data have been better than expected. Investors remain concerned that we might see more than just a mid-cycle pause in the global economy and worry that we will see another recession in Europe. 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. No major countries are actively seeking currency strength – the opposite is the case, if anything - a key indicator that policymakers are not overly concerned about inflation.
- Short-term interest rates remain at emergency levels in the US and the Fed has recently committed to these levels for another two years. The next move from the ECB will likely be a cut - validating the view that this year's hikes were premature - and more easing can be expected globally in the midst of the growth slowdown and financial market stresses.
- Most of the peripheral bond markets in the eurozone remain quite stressed. The situation is very fluid with the prospect of a Greek default being a major concern. The recently published "grand plan" remains subject to lots of execution risk and is likely to fall short of investors' expectations. Meanwhile, the just-announced Greek referendum has raised the chances of a more disorderly situation in Greece. This continues to be an extremely difficult situation, given the positions adopted by key players such as the ECB and some of the eurozone governments. German and US bond yields continue to be extremely low despite the recent rally in risk assets, but the background suggests that long-term interest rates are likely to stay very low for a further considerable period of time.
- In what has been a volatile year, global equities are down around 6% in euro terms. Valuations are reasonable but investors have been 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. Those worries had been eased in the last two weeks in advance of the "grand plan" but concerns that policymakers have lost control over the situation could easily return. The recent recovery in equities may have been fuelled as much by excessive negative sentiment and positioning as anything more fundamental. The situation remains difficult and volatility is quite likely to return.
- The funds are now underweight equities and overweight bonds versus the manager average. Within equity sectors the funds remain underweight financials and overweight technology. Geographically, the funds are underweight in Ireland, Japan, the UK and Europe, neutral in the Pacific region and overweight in the US.

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.

