

Global Overview

Equity markets relatively flat

With the exception of Asia, most equity markets finished the week relatively flat. It was, however, an extremely volatile week once again, with markets slumping early in the week, as Italian bonds hit worrying highs, followed by a rally towards the end of the week as eurozone concerns eased and data surprised to the upside.

Italy

Italian bond yields went over 7% early last week as investors feared it would not be able to contain its debt crisis. This led its Prime Minister, Silvio Berlusconi, to announce he would resign once budget measures were approved by parliament. Both of these duly happened over the weekend.

US economic data

Consumer sentiment exceeded analysts' expectations and reached levels not seen since last June. Better employment data recently contributed to this and last week jobless claims fell once again. The number filing for unemployment benefits is at its lowest level in seven months.

Currencies

In currency markets, the euro rose from a one-month low versus the dollar amid optimism that the eurozone, including the new governments of Greece and Italy, will be able to deal with its debt crisis. The €/£ rate fell to 1.35 on Thursday, but rose to end the week above 1.37, a decline of 0.3%.

Oil

Oil rose for another week, extending its longest streak of weekly advances since April 2009. The West Texas oil price rose 5% to finish the week at \$99 a barrel.

	Index	Year to Date Return 31.12.10 to 11.11.11		1 Week Return 04.11.11 to 11.11.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-5.2	-6.8	0.1	0.3
US	S&P 500	0.5	-2.3	0.8	1.2
US	NASDAQ	1.0	-1.8	-0.3	0.1
Europe	FT/S&P Europe Ex. U.K.	-16.2	-16.2	0.3	0.3
Ireland	ISEQ	-6.5	-6.5	1.2	1.2
UK	FTSE 100	-6.0	-5.9	0.3	0.7
Japan	Topix	-18.9	-17.1	-3.0	-1.5
Hong Kong	Hang Seng	-16.9	-19.3	-3.6	-3.4
Australia	S&P/ASX 200	-9.5	-11.5	0.4	-0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	0.9	0.9	-1.4	-1.4

Global Equities



United States

Overview

The S&P 500 index finished the week in positive territory, despite a sharp fall early in the week. Improving data and leadership changes in Greece and Italy contributed to the recovery. The index has now returned to positive territory for 2011.

Earnings – Shares in Walt Disney rose over 5% after its quarterly results showed higher revenue and profit due to advertising gains, results at its resorts and higher fees from pay-TV operators. Cisco also posted higher-than-expected profit after the scaling back of jobs and falling operating expenses. Its shares gained 5% over the week.



Europe

Overview

European equities were unchanged on the week after recouping early-week losses when Italian bond yields soared. New governments in Greece and Italy, the latter also approving an austerity plan over the weekend, helped sentiment.

Holcim – Europe's second-largest cement maker saw its shares fall 4% after it said Q3 operating profit fell 12%, causing it to miss analysts' estimates.



Ireland

Overview

The Irish market was one of the best markets last week after good results from its second-largest stock, Ryanair.

Ryanair – Shares in the airline soared almost 10% after it raised its full-year profit forecast by 10%. This comes on the back of higher ticket prices, offsetting the slowdown in eurozone economic growth.



Asia Pacific

Overview

Asian markets fell for yet another week, after some weak economic data in the region and eurozone concerns weighed on markets. Hong Kong's economy grew 0.1% in Q3 as consumption in China increased, while Europe's crisis dragged on exports. This compares with a 0.4% contraction in the previous quarter. However, an increase in the Chinese lending numbers in October and a further slowing in inflation to 5.5% boosted hopes of an easing in monetary policy.

Bonds

After going above 7%, when then Prime Minister, Silvio Berlusconi, rejected financial aid from the IMF, Italian yields recovered as the week went on and finished close to 6.5%. Yields above 7% - 8% are seen as unsustainable and led to Portugal and Ireland requesting bailout funds. The Merrill Lynch over 5 year government bond index ended the week 1.4% lower.

Global Outlook

- Global growth rates have likely peaked for now although some of the recent US data have been better than expected. Investors remain concerned that we might experience more than just a mid-cycle pause in the global economy and another recession in Europe is a distinct concern. 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 until well into 2013. Indeed, globally central banks are either neutral in their stance or have embarked on more easing measures. The next move from the ECB will likely be another cut, validating the view that this year's hikes were premature.
- Most of the peripheral eurozone bond markets remain quite stressed. The recently published "grand plan" remains subject to lots of execution-risk and is likely to fall short of investors' expectations; meanwhile, the situations in Greece and Italy still have potential to spiral further out of control. While risk markets continue to believe that "something will be done", this continues to be an extremely difficult situation in which an ultimately benign outcome is far from a given, even though the political and economic stakes continue to rise. 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 7% in euro terms. Valuations are reasonable but investors have been questioning the path of future corporate profits, given renewed economic growth worries. The recent recovery in equities may have been fuelled as much by excessive negative sentiment and positioning, as well as the idea that a reasonably benign outcome will be achieved in the eurozone debt crisis. But as the latter situation remains difficult, it's quite possible for volatility to return in the short term.
- The funds are 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 and are neutral in the Pacific region and 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.

