

Global Overview

Equity markets retreat

Equity markets fell heavily as fears of debt crisis contagion spread across eurozone countries. With the threat this poses to European and American banks rising, these fears outweighed some positive economic data.

Bond yields

Spanish, French and Italian bond yields rose during the week, with the spread between themselves and Germany also widening to record levels. Italy and France managed to fill bond sales, albeit at a higher yield than previous sales, but Spain sold 11% less than its target. The ECB is said to have been a buyer at some of last week's auctions.

Leading indicators

The index of US leading indicators rose more-than-expected in October. Based on this report, the world's largest economy will continue to expand in 2012. Gains in consumer spending, manufacturing and homebuilding, along with a decline in job losses, were notable points in the report.

Currencies

In currency markets, the euro had its biggest weekly loss against the yen since September, while the dollar also weakened against it, as investors sought safety in the yen.

Oil

Oil tracked equities lower for its first fall in seven weeks. The West Texas oil price slipped almost 2%, to finish the week at \$97 a barrel.

	Index	Year to Date Return 31.12.10 to 18.11.11		1 Week Return 11.11.11 to 18.11.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-8.3	-9.1	-3.2	-2.4
US	S&P 500	-3.3	-4.4	-3.8	-2.1
US	NASDAQ	-3.0	-4.1	-4.0	-2.3
Europe	FT/S&P Europe Ex. U.K.	-19.3	-19.3	-3.7	-3.7
Ireland	ISEQ	-9.3	-9.6	-3.3	-3.3
UK	FTSE 100	-9.1	-8.9	-3.3	-3.3
Japan	Topix	-19.9	-16.4	-1.3	0.8
Hong Kong	Hang Seng	-19.7	-20.8	-3.4	-1.8
Australia	S&P/ASX 200	-12.0	-14.7	-2.8	-3.6
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.5	-0.5	-1.4	-1.4

Global Equities



United States

Overview

The S&P 500 index had its worst weekly loss in over two months as the eurozone debt crisis continues to weigh on investor sentiment. Financial stocks were hit the hardest, after a Fitch report spurred speculation that the crisis poses a threat to earnings.

Abercrombie & Fitch – The clothing company was one of the biggest fallers on the S&P 500 index after it posted weaker-than-expected earnings. Earnings were hurt by higher input costs and its shares ended the week 17% lower.

Financials – Following the Fitch report, which said banks face a “serious risk” if Europe's debt crisis worsens, shares in the sector slid. Morgan Stanley, Citigroup and JP Morgan fell 13%, 10% and 8% respectively.



Europe

Overview

European equities extended their 2011 losses as sovereign borrowing costs surged to record levels since the introduction of the single currency.

Cable & Wireless – With profit and sales declining, the telecoms company announced it was suspending future dividend payments. With dividends making up a significant portion of equity returns, its shares slumped 35%.



Ireland

Overview

The Irish market tracked the rest of Europe lower during the week.

Paddy Power – The company issued a strong interim management statement covering the past four-and-a-half months. It confirmed it was expecting 15% to 20% earnings growth for this year and this helped it buck the market trend to rise 8% over the week.



Asia Pacific

Overview

Asian markets fell for another week, with the region's benchmark index within a percent of erasing the strong gains experienced in October. Concern about China's property sector, as home prices fell in 33 of 70 cities in the country, and Europe's crisis outweighed data that showed Japan's economy returned to growth after three consecutive quarters of contraction. It expanded 1.5% between July and September.

Bonds

Eurozone bonds rose on Friday after it was said that the ECB had bought Italian and Spanish bonds. This, though, only pared the assets' weekly loss as uncertainty and difference in opinions between France and Germany on how to ultimately deal with the crisis continues to hurt sentiment. The Merrill Lynch over 5 year government bond index ended the week 1.4% lower.

Global Outlook

- Economic growth globally has probably peaked for now although some of the recent US data have been better than expected. Investors remain concerned that we are experiencing more than just a mid-cycle pause in the global economy; another looming recession in Europe feeds that 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. As before, no major countries are seeking currency strength - the opposite is the case if anything - and this is a key indicator that policymakers are not overly concerned about inflation.
- Short-term interest rates continue 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" seems to have already fallen short of investors' expectations; meanwhile, the situations in Greece and Italy still have potential to spiral 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 9% in euro terms. Valuations may be reasonable but investors have been questioning the path of future corporate profits, given renewed economic growth worries and allowing a risk premium for further eurozone debt risks. The October equity rally may have been fuelled as much by excessive negative sentiment and positioning, rather than anything more fundamental. Volatility and negativity have returned quite readily and these could persist in the immediate term before some more benign conditions return.
- 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 in the US.

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