

Global Overview

Equity markets rally strongly

Global equity markets rallied sharply, following news of co-ordinated action by six of the world's largest central banks to provide additional dollar liquidity (please see note below). In addition to upbeat economic data releases, markets reacted positively to news that the People's Bank of China has implemented a new reserve requirement ratio for banks, allowing the country's lenders to keep fewer deposits in reserve.

US economic data

Latest non-farm payroll numbers showed that 120,000 new jobs were added in November, and also a surprise drop in the headline rate of unemployment to 8.6%, from 9% in October. This is the lowest level for the US unemployment rate since March 2009.

Co-ordinated central bank action

Six of the world's largest central banks announced a co-ordinated move to boost liquidity to European banks by cutting the price of emergency dollar loans to lenders by 50 basis points.

Italy's austerity plan

Italian Prime Minister Mario Monti unveiled a €30 billion package of austerity measures, raising taxes and increasing the pension age in a bid to shore up the Italian economy.

Currencies

In currency markets, the euro strengthened against the dollar amid a marked improvement in risk appetite across global markets. The €/ \$ rate finished the week at 1.34, a gain of 2%.

Oil & commodities

The West Texas oil price gained over 4%, to finish the week at almost \$101 a barrel. Gold rose almost 4%, its best rise since October, helped by news that South Korea's central bank had purchased the metal.

	Index	Year to Date Return 31.12.10 to 02.12.11		1 Week Return 25.11.11 to 02.12.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-5.7	-6.0	7.4	7.1
US	S&P 500	-1.1	-1.3	7.4	6.2
US	NASDAQ	-1.0	-1.2	7.6	6.4
Europe	FT/S&P Europe Ex. U.K.	-16.1	-16.1	9.5	9.5
Ireland	ISEQ	-5.7	-5.7	7.9	7.9
UK	FTSE 100	-5.9	-6.1	7.5	7.3
Japan	Topix	-17.2	-13.9	5.3	3.8
Hong Kong	Hang Seng	-17.3	-17.5	7.6	6.8
Australia	S&P/ASX 200	-9.6	-9.8	7.6	12.2
Bonds	Merrill Lynch Euro over 5 year Govt.	0.6	0.6	4.1	4.1

Global Equities



United States

Overview

US equities recorded their best week since 2009. The S&P 500 index ended the week 7% higher, following co-ordinated action by six of the world's largest central banks and to broadly positive US economic data.

Financials & cyclical stocks – The week's rally was driven primarily by financial and cyclical stocks with metal, mining and energy stocks gaining amid rising commodity prices and the boost from monetary easing in China. The financial sector was up around 9%, led by Citigroup and Morgan Stanley, both of which rallied between 17% and 20%.



Europe

Overview

Increased confidence that eurozone leaders are prepared to act decisively to tackle the region's debt crisis resulted in European equities bouncing strongly, by almost 10%.

Thyssen Krupp – The German steel-maker reported large net losses of €1.8 billion for the year to the end of November, compared with a profit of €927 million in the same period last year. The losses are a result of a €2.9 billion write-down in the firm's US and stainless steel divisions.



Ireland

Overview

The Irish market ended the week almost 8% higher, in line with the rest of the world.

Bank of Ireland – The bank met its end of year recapitalisation target late last week after buying back outstanding securitised bonds at a discount, resulting in a capital gain of €350 million.



Asia Pacific

Overview

Asian markets joined in the global equity market rally, delivering strong gains on the week, with the Japanese Topix Index and the Hong Kong Hang Seng Index gaining between 5% and 8%. China's central bank surprised markets by cutting the reserve requirement ratio for its banks by 50 basis points for the first time in almost three years. China's latest manufacturing PMI reading disappointed markets, coming in at 49.0 (versus 50.4 previously) and reflecting the first contraction since February 2009.

Bonds

Eurozone bond markets performed strongly over the week with successful Spanish and French bond auctions causing bond yields to fall sharply lower. The target of selling €3.75 billion of Spanish government bonds was met with better-than-expected investor demand and the yield on 10-year Spanish bonds fell below 6% for the first time in two weeks. The Merrill Lynch over 5 year government bond index ended the week 4.1% higher.

Global Outlook

- Economic growth globally has peaked for now and we have seen a wave of official and non-official 2012 growth forecasts being lowered in the past couple of weeks. Even though some of the more recent data in the US have been ok, investors are focusing on another looming recession in Europe and downside risks to growth elsewhere. Inflation has continued to be 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; but all of the indications are that these are dissipating. 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 remain at emergency levels in the US and the Fed has affirmed its promise to keep 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 – possibly this week – and low rates will be maintained by them also for some time.
- Most of the peripheral and some of the other eurozone bond markets remain stressed. All eyes are on the EU summit of this week, where it looks like political leaders will be locked in a room until they reach an agreement. Many of the potential positives have already been flagged, but it is still possible that some others will be hinted at, such as the ECB printing more money. Even though the stakes are very high, it continues to be an extremely difficult situation in which an ultimately benign outcome is far from a given. The general global backdrop is still disinflationary for now, and this suggests that long-term interest rates in the US, Japan, UK and Germany 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, following a strong move last week. Valuations may be reasonable but investors are downgrading future corporate profits, given renewed economic growth worries and a risk premium for further eurozone debt risks. Markets are likely to be volatile again this week and next – prior to, and after the EU summit – and this could be exaggerated by thinner December market conditions. Although most equity investors are expecting a benign resolution of the eurozone crisis that would set the stage for a strong rally, that may remain elusive. In the immediate term, it is more likely that markets give up recent gains than rally hard from here.
- The funds are underweight equities and overweight bonds versus the manager average. Within equity sectors the funds remain underweight financials and industrials 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.

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.

