

## Global Overview

### Equity markets trade higher, volatility remains

Despite lingering doubts about the US economic outlook, and the publication of European bank stress tests causing volatility at times last week, better-than-expected quarterly earnings reports along with robust European data releases caused equities to end the week higher.

### EU Bank Stress Tests

Europe took a further step towards restoring confidence in its banking system when the stress test results revealed that only seven out of ninety-one European banks failed to meet the requirements outlined. Five of the seven have been named as Spanish savings banks with Germany's Hypo Real Estate Bank and Greece's Atebank being the only non-Spanish institutions to fail.

### Eurozone economic data

Encouraging purchasing managers' surveys on eurozone manufacturing and services activity offered evidence that the region's recovery remains on track. Meanwhile, the closely-watched Ifo Index showed that German business confidence posted a record jump in July.

### Currencies

Despite the €/£ rate trading within a volatile range last week on the back of uncertainty caused by European stress test results and Federal Reserve Chairman Ben Bernanke's downbeat comments on the US economy, the €/£ rate finished the week unchanged at 1.29.

### Commodities

The oil price ended the week at \$79 a barrel, a gain of almost 4% over the week, supported by improved risk appetite along with expectations that a storm threat could bring disruption to oil and gas operations in the Gulf of Mexico.

	Index	Year to Date Return 31.12.09 to 23.07.10		1 Week Return 16.07.10 to 23.07.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-1.3	8.7	2.7	3.7
US	S&P 500	-1.1	10.3	3.5	4.1
US	NASDAQ	0.0	11.5	4.1	4.7
Europe	FT/S&P Europe Ex. U.K.	-1.6	-1.6	2.5	2.5
Ireland	ISEQ	-1.9	-1.9	2.2	2.2
UK	FTSE 100	-1.9	4.4	3.0	4.2
Japan	Topix	-7.3	10.3	0.1	-0.1
Hong Kong	Hang Seng	-4.8	6.0	2.8	3.4
Australia	S&P/ASX 200	-8.5	1.7	0.8	4.1
Bonds	Merrill Lynch Euro over 5 year Govt.	3.9	3.9	0.0	0.0

## Global Equities



### United States

#### Overview

Pessimistic comments from Federal Reserve Chairman Ben Bernanke about the outlook for the US economy and disappointing initial jobless claims numbers, increased market volatility at times last week. Despite this, the majority of companies (Apple, Morgan Stanley, Coca Cola, UPS, AT&T, Caterpillar and Microsoft) delivered positive corporate earnings news and the S&P 500 delivered a healthy 3.5% weekly gain.

**Earnings releases** – Microsoft reported that its net income surged in the most recent quarter, the latest sign that businesses are spending money on technology. In particular, strong sales of Windows 7 software helped boost results in the fiscal fourth-quarter. Conversely, however, profits at investment bank, Goldman Sachs, fell by 83% in the second quarter, missing analysts' estimates.



## Europe

### Overview

European stocks ended the week over 2% higher as investors brushed aside uncertainty about the results of the stress tests, focusing instead on better-than-expected European economic data.

**ABB** – The Swiss engineering firm reported better-than-expected second-quarter results on stronger automation performance and an improved outlook for later-cycle power end markets. The stock gained almost 9% on the week.



## Ireland

### Overview

The ISEQ tracked the rest of Europe higher (moving closer to the 3,000 level) on the back of upbeat US earnings results.

**Ryanair** – The airline reported a 24% decline in quarterly earnings on the impact of the Icelandic volcano that caused travel chaos earlier in the year. Net income for the quarter ending 30th June was €93.7 million compared to €123 million from the same quarter, one year earlier. The company gave an upbeat guidance on yields saying fares may rise by 15% in the current quarter.



## Asia Pacific

### Overview

Japanese stocks ended the week marginally up while Hong Kong's Hang Seng Index gained 3% over the week, as the results of stress tests among European banks eased investor concern that the region's recovery will stall. Material stocks outperformed as steel and iron ore price rebounded.

## Bonds

Eurozone bonds had a quiet week. Strong performance from Italy, Spain and Ireland offset weakness elsewhere. The Merrill Lynch over 5 year government bond index finished the week unchanged.

## Global Outlook

- The general consensus is that the global economy will expand by around 3.5% this year, although financial market volatility adds to downside risks. Inflation pressures globally remain modest, reflecting weaker data in US, Europe and Japan and stronger readings in emerging economies and Asia. Bank lending remains weak and this is a worry. Exports are very strong from some European economies but domestic demand is subdued still and concerns remain about whether the private sector in Europe and the US can grow without continued massive government stimulus.
- The eurozone debt crisis has reawakened worries about sovereign creditworthiness, the long-term consequences of the credit burst and the unintended consequences of a myriad of policy actions - factors which periodically increase the risk concerns of equity investors.
- Central banks continue to set interest rates at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Australia, Canada, India and China. It is clear that developments in Greece will temper the timing of policy changes across the globe, not just in the eurozone. To that end, 2011 rate expectations remain very close to their cycle lows in the US, UK and eurozone. Investors therefore expect that low rates will persist for some time, a view reinforced by last week's testimony by Fed chief, Bernanke.
- These low short-term interest rates combined with disinflation concerns continue to be of general support to the major bond markets such as Germany, the US and Japan. Peripheral bond spreads in the eurozone have been volatile again of late - Spanish spreads have narrowed but Irish spreads remain stubbornly elevated - but the general situation has been calmer since Greece has fallen out of the investment grade universe. It is clear that the longer-term success of the euro project will require a more centralised fiscal framework than we currently have.
- The small decline in global equities so far this year masks very substantial volatility, four 7%+ falls and one 14% recovery. Low interest rates certainly provide some forward support to risk markets, and the reaction to a strong US earnings' season and European bank stress test has been more on the positive side than the negative. We still need to see some more follow through from current levels before we can be more confident that we have not just experienced another temporary rally.
- Currently, the funds remain underweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are reasonably balanced, with a slight overweight in technology and underweight in basics. Geographically, the funds are underweight in Ireland, the UK, Europe and the US, and are neutral in Japan and the Pacific Basin.

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.

