

Global Overview

Markets lower for the week, but gain for the month

European and US equity markets retreated last week after weak economic data and fears surrounding Greece, dominated markets. Many markets returned to winning ways over the month though, after falling for the first time in eleven months in January.

Greek developments

Over the weekend, it was announced that the European Union governments are creating a rescue package for Greece, but are insisting that firstly, it intensifies its efforts to cut the current budget deficit. It is thought that state-owned lenders may be used to buy €25bn of Greece's debt.

US economic data

US GDP data was revised upwards to show that the economy expanded at an annual rate of 5.9% in Q4 2009. This was the best quarter in more than 6-years. It wasn't all good news though, as during the week separate reports confirmed that consumer confidence and durable goods orders declined, while jobless claims surprisingly jumped.

Oil price

The oil price finished the week relatively flat, however a 2% rally following the GDP data pared what would have been a heavily negative week for the commodity. Oil finished the week at just below the \$80 a barrel mark, a fall of 0.2%.

Currencies

The euro rose marginally last week, ending six weeks of decline, as speculation mounted that Germany would buy Greek bonds through a state-owned lender. The €/ \$ rate ended the week at just above 1.36, 0.2% higher over the week.

	Index	Year to Date Return 31.12.09 to 26.02.10		1 Week Return 19.02.10 to 26.02.10	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-1.0	4.4	-0.4	-0.6
US	NASDAQ	-1.4	3.9	-0.3	-0.4
Europe	FT/S&P Europe Ex. U.K.	-4.1	-4.1	-1.6	-1.6
Ireland	ISEQ	-3.4	-3.4	-3.2	-3.2
UK	FTSE 100	-1.1	-1.7	-0.1	-1.9
Japan	Topix	-1.5	8.8	0.6	3.8
Hong Kong	Hang Seng	-5.8	-0.8	3.6	3.5
Australia	S&P/ASX 200	-4.8	-0.2	0.1	-0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	1.2	1.2

Global Equities



United States

Overview

After the biggest gains in over three months in the previous week, fears surrounding the momentum of the economic recovery caused investors to take profits in equities.

Economic data – Disappointing economic data caused both American Express and Caterpillar to finish the week more than 2% lower. American Express was affected by consumer confidence retreating to a ten-month low, while Caterpillar felt the effect of companies scaling back equipment orders.



Europe

Overview

European stocks retreated over the week, as the market digested a big earnings week and waited for news regarding the possibility of an aid package for Greece.

Lloyds Bank – Lloyds fell by over 4% after posting a full-year loss that was weaker than analysts had expected. The main factor had been a significant increase in loan impairments during 2009, following the take-over of HBOS.



Ireland

Overview

The Irish market finished over 3% lower, as the banks endured another tough week.

Bank of Ireland – Shares in the bank fell by over 20%, after the Government was issued with 184 million of its shares in lieu of a preference dividend owed to the Government, resulting in the State having a 15% stake in the bank, worth €250m. Fears that the same may happen to AIB when it issues its dividend during the year, caused it to fall by 12%.



Asia Pacific

Overview

Asian markets gained ground, after starting the week strongly, as concern eased that the Federal Reserve will raise borrowing costs to curb inflation. The best market was Hong Kong, as economic growth beat estimates, while Japan rose following government reports on factory output and sales.

Bonds

Eurozone bonds gained, despite fears that Greece's debt may be downgraded by S&P, following supportive economic releases, with falling consumer prices in the eurozone being the most notable. The Merrill Lynch over 5 year government bond index rose by 1.2% on the week.

Global Outlook

- Economists anticipate that the global economy will expand by 3% this year, following a fall of just over 2% in 2009. A key issue is whether private sector demand in Europe and the US is strong enough to allow governments and central banks to withdraw some of the massive stimulus they have been providing. It's also notable that bank lending is still constrained. Partly for this reason, policymakers remain somewhat cautious on the economic outlook and this remains a key factor to watch during the year.
- Policymakers and academics continue to grapple with the long-term implications of the credit burst and the unintended consequences of policy actions, although such concerns manifest themselves much more sporadically among market participants, mainly when equity market sentiment is negative, like in the past few weeks.
- Short rates continue to hover between 0% and 1% in the major economies and investors remain nervous about the withdrawal of low interest rates. Central bankers in the US and Europe are keen to remove emergency policy settings but don't want to do so prematurely, a balancing act which continues to be difficult to communicate – as the recent discount rate move by the Federal Reserve proves. Despite that, it's notable that end-2010 rate expectations in the US, UK and eurozone remain more or less at their cycle lows. On balance, therefore, investors expect that low rates will persist for some considerable time.
- For bond markets, inflation data has remained supportive and inflation expectations are contained. However, the "elephant in the room" remains the exit from emergency policy settings – which is bound to have some impact on bond markets – and these concerns continue to keep bond markets in a broad trading range. Bond markets had been helped by the recent weakness in equity markets and some bond prices have risen back closer to top of their recent price range. However, it's been the fiscal woes in Greece that have been the dominant concern so far this year. This story is still playing out but it appears that a short term compromise solution will be ironed out soon, one that helps both Greece and the credibility of the euro.
- The start of the year equity market optimism was dented by an almost 10% correction from early 2010 highs. Worries over a hard landing in China plus fiscal risks in the eurozone offset strong corporate earnings. However, valuations are reasonably supportive and excessive negative sentiment may now act as a market support. Global liquidity conditions remain constructive and China is getting closer to the end of its tightening cycle. Near term, markets have stabilised and look more likely to push slightly further ahead.
- Currently, the funds are neutral to slightly long in equities and closer to neutral in bond weightings, versus the manager average. Within equity sectors, the funds have gone much closer to neutral but are still overweight technology. Geographically, the funds are pretty neutral although they remain underweight in Ireland and slightly overweight in Japan and the Pacific Basin.

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