

Global Overview

Equity markets finish in positive territory

Despite paring gains on Friday, equity markets managed to finish the week higher as sentiment showed signs of recovery. This followed encouraging comments from China regarding its European assets and some upbeat economic data.

Spanish downgrade

Fitch Ratings cut the credit grade of Spain from the elusive AAA status to AA+, a drop of one notch. This reflects the increasing concern that the country's debt crisis is going to lead to slower economic growth. The Spanish government, by a very tight margin, passed a proposal to cut public wages and freeze pensions in an effort to contain its deficit.

China

Comments from China regarding its European assets sparked a midweek rally which saw indices worldwide rise by over 3%. The Chinese government assured investors that it was committed to maintaining European investments, despite the region's debt crisis. There had been speculation that it may have reduced its European holdings.

Euro weakens

Once again, the euro fell against most major currencies, resulting in a sixth consecutive month loss against the dollar, amid concerns that measures to support the region's sovereign debt crisis will result in slower growth worldwide. The €/£ rate ended the week at 1.23, a weakening of almost 2% on the week.

Commodities

The oil price finished at \$74 a barrel, a strong rise of 5% for the week. This was the first rise in four weeks as oil, along with many other commodities, benefited from the rebound in investor confidence. Despite this recovery, May was oil's worst month since December 2008, due mainly to the euro's retreat.

	Index	Year to Date Return 31.12.09 to 28.05.10		1 Week Return 21.05.10 to 28.05.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-3.1	8.6	1.1	2.8
US	S&P 500	-2.3	13.6	0.2	2.0
US	NASDAQ	-0.5	15.6	1.3	3.1
Europe	FT/S&P Europe Ex. U.K.	-5.9	-5.9	2.1	2.1
Ireland	ISEQ	-1.2	-1.2	1.8	1.8
UK	FTSE 100	-4.1	0.0	2.5	4.8
Japan	Topix	-3.2	15.5	-0.1	0.7
Hong Kong	Hang Seng	-9.6	4.7	1.1	3.2
Australia	S&P/ASX 200	-8.5	0.3	3.5	7.9
Bonds	Merrill Lynch Euro over 5 year Govt.	4.2	4.2	-0.5	-0.5

Global Equities



United States

Overview

US equities finished the week slightly higher after economic data, including consumer confidence, new & existing home sales and durable goods orders remained strong.

Apple – During the week, Apple overtook Microsoft as the most-valuable technology company in the world based on market capitalisation. Apple rose by 6%, while Microsoft declined by 4%, resulting in a 16% drop during May alone.



Europe

Overview

European markets rose, with some recovering from an eight-month low, as investors got a boost from economic data that signalled continued economic growth. This helped raise expectations that the economy can weather the current debt crisis.

Prudential – The drawn-out takeover bid for AIG's Asian insurance unit, AIA, took a twist last week after Prudential announced it was talking with the company about having the price reduced. Prudential saw its shares jump by almost 5% over the week.



Ireland

Overview

The Irish market recovered some of the previous week's losses, despite losses from resource-related stocks and Irish Life & Permanent.

Elan – The pharmaceutical company had a strong finish to the week following its upbeat assessment of the group's prospects at the company's AGM on Thursday. It rose over 5% on Thursday and 3% on Friday, but still finished the week unchanged overall.



Asia Pacific

Overview

Most Asian markets moved higher as investors returned to the market with the view that the recent fears were overdone. Rio Tinto was a strong gainer as concern eased that the proposed mining tax in Australia would not be as high as initially feared, resulting in a boost for earnings' forecasts of mining stocks. This also helped most commodities move higher, after a few tough weeks due to concerns about some fiscal tightening measures in the region.

Bonds

A return to equities from the safe-haven status of fixed interest caused bonds to move lower over the week. These losses were pared on Friday though, following Spain's credit rating downgrade. S&P had previously cut Spain's rating during April. The Merrill Lynch over 5 year government bond index fell by 0.5% over the week.

Global Outlook

- Most economists expect that the global economy will expand by around 3.3% this year. Inflation pressures globally should remain modest, reflecting weaker data in US, Europe and Japan and offsetting strength in emerging economies and Asia. A central issue is whether the private sector in Europe and the US is strong enough to allow some of the massive stimulus to be withdrawn. Doubts about this, plus constrained bank lending, make central banks still somewhat cautious on the economic outlook.
- After the Greek debt contagion, concerns about the long-term consequences of the credit burst, and the unintended consequences of a myriad of policy actions, are once more centre stage for both investors and policymakers.
- Short rates continue to be set at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Australia, India and China. Some central bankers in the US are keen to remove emergency policy settings but it is now clear that developments in Greece will temper the timing of policy changes across the globe, not just in the eurozone. It is notable that end 2011 rate expectations remain less than 0.2% above their cycle lows in the US, UK and eurozone. Investors expect that low rates will persist for some time.
- Inflation data, short rates and liquidity conditions continue to be of general support to the major bond markets. German and US bond markets continue to benefit from a flight away from peripheral markets and discussions about "disinflation", with the collapse in the functioning of the Greek bond market refocusing minds on the many implications of highly-indebted countries. ECB bond purchases have had some success so far, but the longer-term success of the euro project will need a more far reaching set of proposals than we have seen to date. Peripheral bond market spreads have narrowed but the situation is still very delicate and conviction is low.
- The small net decline in global equities so far this year masks very substantial volatility, three 8%+ falls and one 14% recovery. One result of the latest fall is that policy will remain easier for longer, especially in Europe, and this gives some forward support to risk markets. Equally, it is notable that after a 20% fall in Chinese equity prices this year, policymakers' rhetoric is becoming more moderate. In most markets nervousness is still the order of the day with investors quickly forgetting recent good economic and earnings' data, which had been a fundamental support for equities. However, the determination of policymakers to offset risk aversion in equity and credit markets will likely persist for some time. Further volatility and falls are quite possible in the near-term before markets steady themselves and provide buying opportunities.
- Currently, the funds are underweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are reasonably balanced, with a reduced, but still overweight, position in technology. Geographically, the funds are underweight in Ireland, the Pacific Basin, the UK and Europe, and are neutral in Japan and the US.

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Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

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