

Global Overview

Equity markets move higher

Despite the release of mixed economic data, global equities traded higher for the second consecutive week, with investors choosing instead to focus on positive news that European bank stress test results will be published at the end of next month.

Chinese Central Bank signals end to currency peg

China has signalled that it will relax its currency peg against the US dollar which was adopted during the global financial crisis in an effort to protect exporters. The currency will be given greater flexibility, signalling China's confidence in the global economy.

US economic data

Latest initial jobless claims in the US proved disappointing, whilst the Philadelphia Fed's survey confirmed lower-than-expected factory activity growth. Elsewhere, on a positive note, US industrial production rose by a better-than-expected 1.2% in May.

Ten-year Spanish bond spreads

Yield spread differentials between ten-year Spanish bonds and their German equivalent, hit a record mid-week. However, by Thursday, this spread narrowed on news that Spanish bank stress testing results will be published, along with a successful Spanish bond auction.

Currencies

In currency markets, the euro currency rose to a three-week high against the dollar, as a result of easing concerns over the eurozone financial crisis, along with the dollar being undermined by weak US economic data. The €/€ rate ended the week at almost 1.24.

Commodities

Oil traded almost 5% higher over the week, boosted by increasing US gasoline consumption levels, to end the week at \$77 a barrel. Elsewhere, gold hit a new record of \$1,260 per troy ounce, as investors sought a safe haven against uncertainty.

	Index	Year to Date Return 31.12.09 to 18.06.10		1 Week Return 11.06.10 to 18.06.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-0.4	11.9	2.3	0.9
US	S&P 500	0.2	16.2	2.4	-0.1
US	NASDAQ	1.8	18.0	3.0	0.5
Europe	FT/S&P Europe Ex. U.K.	-1.0	-1.0	3.1	3.1
Ireland	ISEQ	4.8	4.8	2.3	2.3
UK	FTSE 100	-3.0	3.1	1.7	1.2
Japan	Topix	-2.5	16.1	2.1	0.6
Hong Kong	Hang Seng	-7.3	7.1	2.1	-0.3
Australia	S&P/ASX 200	-6.5	4.9	1.0	1.1
Bonds	Merrill Lynch Euro over 5 year Govt.	2.8	2.8	-1.1	-1.1

Global Equities



United States

Overview

The S&P 500 rose by 2% on the week as investors shrugged off concerns about eurozone debt and mixed economic data, choosing instead to focus on positive news. Industrials and technology stocks led the market advance.

Apple – Shares of the technology company reached an all-time high as pre-orders for its latest smartphone device, the iPhone 4, surpassed all expectations. Shares rose by 8% over the week. Conversely, its competitor, Nokia revised down second-quarter revenue estimates, hurt by Apple's surging iPhone sales.



Europe

Overview

European markets gained 3% over the week as the Bank of Spain committed to publishing the bank stress test results, boosting investor sentiment towards the region.

BP – The oil company's share price continues to remain under pressure, falling by almost 9% last week, as it struggles to control the oil spill. The company established a \$20 billion claims fund for the oil spill and suspended its dividends for the next three quarters.



Ireland

Overview

The Irish market followed the rest of the world higher, logging a 2% gain over the week.

Aryzta – The food group continues to perform strongly, recently raising its outlook for the full year after it announced two new US-based acquisitions (Fresh Start Bakeries and Great Kitchens), that will double its production capacity and expand its global presence.



Asia Pacific

Overview

Asian markets recorded strong gains last week, buoyed by easing concerns over the eurozone financial system. Japan's Topix and Hong Kong's Hang Seng Index both gained 2% over the week. Elsewhere, Japan's Fujitsu and Toshiba unveiled plans to merge their mobile phone businesses which would create Japan's second-largest mobile-phone maker.

Bonds

The decision by eurozone officials to publish the results of European bank stress tests helped soothe investor worries over the health of the region's financial system. As a result, investors moved away from safer assets towards risky equity markets, and the Merrill Lynch over 5 year government bond index fell by 1.1% over the week.

Global Outlook

- Most forecasters remain optimistic that the global economy will expand by around 3.3% this year, although financial market volatility may jeopardise this somewhat. Inflation pressures globally are set to remain modest, reflecting weaker data in the US, Europe and Japan and offsetting strength in emerging economies and Asia. Bank lending is still weak and this is a worry. Another key issue is whether the private sector in Europe and the US can grow without continued massive government stimulus, especially when governments are divided as to how long such stimulus is required.
- The Greek and 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.
- 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, Canada, India and China. However, it is 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 are still only fractionally above their cycle lows, meaning that investors expect that low rates will persist for some time.
- Inflation data, short rates, liquidity conditions and risk aversion continue to be of general support to the major bond markets such as Germany and the US. It is difficult to see any positive impact so far from ECB bond purchases and more measures will have to be adopted. Equally, it is clear that 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 been widening again and the situation is still very delicate. Investor conviction is low and the message from the authorities is not yet coherent enough to be persuasive.
- The modest decline in global equities so far this year masks very substantial volatility, three 8%+ falls and one 14% recovery. As mentioned above, it is likely that interest rates will remain lower for longer, especially in Europe, and this gives some forward support to risk markets. While the Chinese equity market has fallen 20% this year, it is hard to judge the current stance of policymakers' rhetoric there. While global markets have recovered from recent lows, the continuing debacle in eurozone bond markets is a concern and further gyrations are likely before a clearer picture emerges. Ultimately, investors expect policymakers to continue to work against difficulties in credit markets but the journey to that end will be choppy.
- Currently, the funds are closer to neutral in 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 and the UK, but more neutral in other areas.

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