

Global Overview

Equity markets continue to fall heavily

Global equity and commodity markets came under pressure for the second consecutive week, with nervous investors switching out of riskier assets on the back of a series of weaker-than-expected economic data releases, in particular, in China and the US.

US economic data

Figures released showed that the numbers employed fell by 125k last month. This figure was negatively affected by the end of the census in the US, which had boosted employment recently. Worrying, though, was the smaller-than-expected growth in private payroll numbers. This follows weakness in housing data, consumer confidence and manufacturing data over the past month.

Chinese growth revised downwards

Goldman Sachs announced that government restrictions on lending and the housing market in China will slow expansion in the country, affecting worldwide demand. Goldman Sachs cut its forecast for 2010 growth in the country from 11.4% to 10.1%.

Currencies

Investors turned to the euro following the negative sentiment towards the US economy, causing the €/£ rate to strengthen by 1.6%, finishing slightly above 1.25.

Commodities

Disappointing economic data from the world's two largest energy consumers hurt investor sentiment last week. This resulted in oil declining on each trading day last week and recording its largest fall since early May. Oil finished the week 8.5% lower, at \$72 a barrel.

	Index	Year to Date Return 31.12.09 to 02.07.10		1 Week Return 25.06.10 to 02.07.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-7.7	2.5	-4.4	-6.3
US	S&P 500	-8.3	4.8	-5.0	-6.5
US	NASDAQ	-7.8	5.3	-5.9	-7.4
Europe	FT/S&P Europe Ex. U.K.	-8.2	-8.2	-4.2	-4.2
Ireland	ISEQ	-4.4	-4.4	-3.5	-3.5
UK	FTSE 100	-10.6	-3.9	-4.1	-4.4
Japan	Topix	-8.4	11.2	-4.2	-3.9
Hong Kong	Hang Seng	-9.0	3.5	-3.8	-5.5
Australia	S&P/ASX 200	-13.0	-6.8	-3.9	-8.6
Bonds	Merrill Lynch Euro over 5 year Govt.	3.7	3.7	0.8	0.8

Global Equities



United States

Overview

US stocks and the dollar both fell last week. Slower-than-expected employment and factory orders contributed to fears of a slowdown in the economic recovery. The S&P 500 Index failed to finish higher on any of the five days over the week.

Alcoa – The aluminium-mining company finished the week 11% down, due to the disappointing data worldwide. Alcoa will be the first company to report Q2 earnings on 12th July, in what investors are hoping will follow-on from the upbeat earnings over the past year.



Europe

Overview

Over the week, European markets lost another 4% due to concern that the economic recovery is not as healthy as expected.

BP – For the first time since its oil leak started on 20th April, following an explosion on a rig, shares in the company rose due to attempts to stem the flow being reported as seven to eight days ahead of schedule.



Ireland

Overview

After retreating 5% the previous week, the Irish market fell by another 3.5% last week. CRH fell by 5% following the weak economic data over the past number of weeks in the US. Elsewhere, Icon fell by over 7%, while Bank of Ireland was down 11%.



Asia Pacific

Overview

Weak economic data worldwide and comments from Goldman Sachs regarding Chinese economic growth caused Asian stocks to decline for the fourth week in five. Consumer-reliant and mining stocks fell heaviest, resulting in Canon, Hyundai and BHP Billiton falling as much as 8%.

Bonds

Bond markets performed well as investors moved away from risky equity assets towards safer assets. Over the weekend, Jean-Claude Trichet, President of the ECB, urged the use of austerity measures to contain budget deficits in the region. The Merrill Lynch over 5 year government bond index rose by 0.8% over the week.

Global Outlook

- Economists expect that the global economy will expand by around 3.3% this year, although financial market volatility adds to downside risks. Inflation pressures globally should 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, 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. It is notable that end-2011 rate expectations remain very close to their cycle lows in the US, UK and eurozone. Investors expect that low rates will persist for some time.
- Disinflation concerns, low 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 8% decline in global equities so far this year masks very substantial volatility, four 7%+ 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. To underline the forward-looking nature of equity markets, it is notable that in the midst of strong economic growth there has been a more than 20% fall in Chinese equity prices this year. In most equity markets, nervousness is still the order of the day with investors focusing on downside risks to forward economic data and corporate earnings. After the most recent fall in markets, we may pause, or even retrace, some of these losses. But further volatility and falls are quite possible before opportunities emerge, since investors fear a lack of co-ordination at the global policy level. Ultimately, though, we should not discount the determination of policymakers to offset risk aversion in equity and credit markets.
- Currently, the funds remain 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 UK, the US and Europe, and are neutral in Japan and the Pacific Basin.

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