

Global Overview

Equity markets suffer some sharp falls

Growing unease about the prospects for continuing economic recovery and central bank policy saw markets unsettled and losing ground, despite the US GDP number on Thursday. Ireland fell particularly sharply, as bank stocks suffered a severe relapse.

Mixed US data

The third quarter GDP number for the US came in at a stronger-than-expected annualised rate of 3.5%, suggesting that the US is out of recession and prompting strong, one-day gains on markets. However, the Conference Board's consumer confidence index fell for the second consecutive month and much more than analysts had expected.

Interest rates

Norway became the first European country to raise rates in the current cycle and the second major economy to tighten, after Australia, when it raised rates by 0.25%, to 1.5%, on Wednesday. The Reserve Bank of India also put the markets on notice that it is considering monetary tightening.

Currencies

Having dived with 14-month lows against the euro early in the week, the dollar rallied strongly as risk aversion spread through the markets, to finish the week at 1.47. The yen also rose on the week, while commodity currencies were among the main decliners.

Commodities

Oil prices fell over 4% on the week, finishing at \$77 per barrel, in the wake of the stronger dollar and general unease about economic prospects. Gold and copper prices also fell.

	Index	Year to Date Return 31.12.08 to 30.10.09		1 Week Return 23.10.09 to 30.10.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	14.7	8.6	-4.0	-2.1
US	NASDAQ	29.7	22.8	-5.1	-3.2
Europe	FT/S&P Europe Ex. U.K.	17.8	17.8	-4.3	-4.3
Ireland	ISEQ	22.3	22.3	-8.9	-8.9
UK	FTSE 100	13.8	21.5	-3.8	-1.1
Japan	Topix	4.1	-0.6	-0.8	3.4
Hong Kong	Hang Seng	51.2	43.2	-3.7	-1.8
Australia	S&P/ASX 200	24.7	50.7	-4.4	-5.2
Bonds	Merrill Lynch Euro over 5 year Govt.	4.4	4.4	1.0	1.0

Global Equities



United States

Overview

The US indices spent the week backpedalling, with the exception of the brief post-GDP announcement rally on Thursday. The NASDAQ posted its first monthly loss since February.

Results – With around 350 of the S&P 500 companies having now released Q3 results, over 80% have produced positive surprises, with only 13% disappointing. Concerns remain over the outlook for revenue growth.

Good & Bad – Goodyear Tyres endured a bad week, falling by 27%, on poor guidance for the fourth quarter. At the other end of the scale, Motorola rose by 4%, on strong Q3 numbers and rising estimates for Q4.



Europe

Overview

European markets behaved in similar fashion to the US, retreating for the bulk of the week. The FTSE 100 index in the UK suffered its worst week since March.

ING – The Dutch financial fell by 23% on the week after unveiling its plan to sell off its insurance and investment management arms, and raise €7.5 billion in a rights issue to repay half of its state capital injection. These plans were more severe than the market had expected.



Ireland

Overview

The ISEQ was the worst-performing market of the week, falling by nearly 9%. The banks led the downward rush, with CRH also falling by almost 12%.

Banks – The three remaining quoted banks endured a dreadful week, Bank of Ireland falling by 33%, AIB down 21% and Irish Life & Permanent down 15%, in the wake of the ING break-up announcement and the acknowledgement by Finance Minister, Brian Lenihan, that the timetable for transferring bad loans to NAMA could slip into 2010.



Asia Pacific

Overview

Asian stock markets felt the pinch last week also, falling across the board. In Japan, attention for much of the week focused on exporters amid uncertainty over the health of the US economy and a strengthening yen. Despite this, Sony and Panasonic, Japan's two biggest consumer electronics companies, both increased their full-year profit forecasts on Friday.

Bonds

European bonds made up for losses over the previous three weeks, as the palpable rise in risk aversion sent investors looking for safety. The Merrill Lynch over 5 year government bond index rose by 1% on the week.

Global Outlook

- Forecasters now expect that the global economy will return to positive growth in 2010 after a further fall of 1% this year. Unemployment will lag the recovery in the economy, however. The strains within the financial system have eased considerably, although bank lending is still impaired. Partly for this reason, policymakers remain slightly cautious on the economic outlook. Trade tensions are not yet a major issue but bear watching for any economic or market impact.
- Much of the economic improvement is attributed to the scale and scope of policy initiatives to rescue the banking system and offset the collapse in private sector demand. Nonetheless, the ultimate success of these initiatives (or what unintended consequences may arise) remains uncertain.
- Short rates continue to hover between 0% and 1% in the major economies, presenting central banks with a distinct challenge. They want to keep rates sufficiently low to foster recovery but also want to exit from emergency policy settings as quickly as conditions permit. The recent rate increases in Australia and Norway have made investors slightly more nervous, although future rate expectations have only risen modestly in the major economies. On balance, most investors still expect that low rates will persist for some considerable time.
- Inflation is still generally supportive to bond markets which have also benefited from the same positive liquidity backdrop that has helped other assets. 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 have kept bond markets on the back foot recently. In the eurozone, peripheral bond markets have seen their spreads over Germany narrow aggressively, helped by a generally supportive backdrop for risk, but some greater differentiation in the performance of individual markets has become evident in recent weeks.
- Global equity markets' valuations are now rich rather than cheap and some of the Q3 earnings' enthusiasm was dampened by some negative economic data. Up until now, markets have been able to grind out recoveries from any dips, with sentiment remaining positive on balance. Last week's price action was less supportive of this pattern and certain chart levels have been breached. Markets will likely trade more nervously in the near term until a clearer picture is evident.
- Currently, the funds are closer to neutral in equities and overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight utilities. Geographically, the funds have an underweight position in Ireland and Japan, are closer to neutral in the UK and the US and are overweight in Europe (marginally so) and in the Pacific Basin.

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