

## Global Overview

### Equities trade in a range

Many equity markets finished the week slightly lower, close to one-month lows, despite economic indicators surpassing expectations and central banks reporting further improvements in the global economy.

### US economic data

In the US, manufacturing, retail sales and homes sales beat expectations, however, worryingly, the unemployment rate jumped to 10.2% in October, from 9.8% one month previously.

### Interest rates

The ECB, Bank of England and Federal Reserve all left interest rates unchanged when each met last week. The Fed reiterated its stance in keeping rates at "extremely low levels for an extended period". The ECB announced it did not expect all the liquidity measures which it made available, to be utilised, as the economy shows further improvement. It also stated that the current liquidity measures will be phased out in a timely manner to avoid an inflationary threat.

### Currencies

The dollar fell against the euro after the Fed kept rates close to zero, and the subsequent unemployment rate data led investors to speculate that interest rates will remain exceptionally low for a longer period of time than previously thought. The €/€ rate finished the week at just over 1.48.

### Commodities

Oil prices finished the week relatively unchanged. Having gained early in the week, Friday's unemployment data caused oil to fall by almost 3%. Gold rose to a record high of \$1,100 an ounce, on speculation that low interest rates in the US will result in a weaker dollar, boosting the appeal of the precious metal.

	Index	Year to Date Return 31.12.08 to 06.11.09		1 Week Return 30.10.09 to 06.11.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	15.7	10.0	0.9	1.2
US	NASDAQ	30.5	23.9	0.6	0.9
Europe	FT/S&P Europe Ex. U.K.	16.4	16.4	-1.2	-1.2
Ireland	ISEQ	20.0	20.0	-1.9	-1.9
UK	FTSE 100	16.6	21.4	-0.1	-0.1
Japan	Topix	2.5	-2.1	-1.6	-1.6
Hong Kong	Hang Seng	47.6	40.3	-2.4	-2.0
Australia	S&P/ASX 200	21.7	47.9	-2.4	-1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	3.7	3.7	-0.8	-0.8

## Global Equities



### United States

#### Overview

Some strong economic data, corporate earnings and the return of merger & acquisition activity drove markets higher last week. Over 80% of companies that have reported earnings so far, have beaten analysts' expectations.

**Cisco** – The tech giant announced results that were better-than-expected, helping its shares finish the week 4% higher. The company also said it sees a global economic recovery, which it hopes will fuel a rebound in its company's sales this quarter.

**Berkshire Hathaway** – Warren Buffett's company made its biggest ever purchase, when it bought the railroad company, Burlington Northern, for \$26bn.



## Europe

### Overview

European stocks remain at one-month lows, despite the fact that earnings results and the eurozone economy, continue to show steady recovery.

**Swiss Re** – The reinsurance company rose by 14% after reporting an unexpected Q3 profit. Investment gains and fewer catastrophe claims helped earnings over the quarter.

**RBS** – The bank fell by 12% after it announced it will get over £46bn in capital from the British taxpayer. This is now the world's most expensive bank bailout.



## Ireland

### Overview

The ISEQ fell by another 2% last week, following on from its 12% loss in the previous week.

**Bank of Ireland** – The bank reported an underlying pre-tax loss of almost €1bn for H2, coming in slightly better than expectations. Its shares got a boost after it left its forecast for loan losses unchanged, and said that the pace of the economic decline may be easing. It was 17% higher over the week.



## Asia Pacific

### Overview

Asian stocks fell for the third successive week, the longest stretch in eight months, on concern that the easing of government stimulus measures will hamper the global economic recovery. Hyundai fell by over 4% after South Korea's government said it is "unclear" whether the economic recovery will be sustained.

## Bonds

European bonds retreated last week, as the market focussed on the likelihood of the ECB starting to withdraw liquidity injections. The Merrill Lynch over 5 year government bond index fell by 0.8% 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, a feeling that was bolstered by the outcome of last week's central bank meetings.
- 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. To date, markets have been able to grind out recoveries from any dips, with sentiment remaining positive on balance. Last week's price action seems to be supportive of this pattern, but investors will likely remain a little cautious until a clearer picture is evident.
- Currently, the funds are closer to neutral 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, the US and Europe and overweight in the Pacific Basin.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

### Zurich Life Assurance plc

Eagle Star House, Frascati Road, Blackrock, Co. Dublin, Ireland.  
Telephone: 01 283 1301 Fax: 01 283 1578 Website: [www.zurichlife.ie](http://www.zurichlife.ie)  
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