

Global Overview

Equities retreat

Equity markets finished the week lower, as another profit-taking bout amid the 8-month rally in equities took place. Some investors fear that the markets may have temporarily outpaced the prospects for growth and corporate earnings.

European Central Bank

The ECB reiterated its commitment to begin ending its monthly auctions of unlimited cash, as it moves to try and reduce liquidity, thus avoiding fueling inflation further down the road. The bank is also tightening rules for collateral it accepts against loans in a bid to restore proper functioning of financial markets in the region.

Federal Reserve

It is believed that the Federal Reserve is stepping up its monitoring of US banks to ensure they can withstand any reversal of the current rally. This involves looking at the capital reserves of each bank, with respect to the risk which it undertakes.

US economic data

Data released last week showed some improvement in jobless claims, industrial production and leading indicators. All were broadly in line with analysts' expectations.

Currencies

The dollar rose against the euro, and most other currencies, as investors moved towards the safer status of government bonds and the US currency. The €/£ finished just below 1.49, a drop of 0.5%.

Oil

Oil prices declined after comments from the ECB raised fears amongst investors, while economic data also failed to support optimism, as it was only roughly in line with expectations. Oil prices finished the week at just below \$77 per barrel.

	Index	Year to Date Return 31.12.08 to 20.11.09		1 Week Return 13.11.09 to 20.11.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	20.8	13.5	-0.2	0.3
US	NASDAQ	36.1	27.9	-1.0	-0.5
Europe	FT/S&P Europe Ex. U.K.	20.6	20.6	-1.7	-1.7
Ireland	ISEQ	22.7	22.7	-3.7	-3.7
UK	FTSE 100	18.4	25.8	-0.8	-1.6
Japan	Topix	-2.4	-6.4	-3.2	-2.0
Hong Kong	Hang Seng	56.1	46.7	-0.4	0.1
Australia	S&P/ASX 200	25.9	53.4	-0.4	-2.0
Bonds	Merrill Lynch Euro over 5 year Govt.	4.8	4.8	0.7	0.7

Global Equities



United States

Overview

US markets fell as investor sentiment towards some cyclical sectors soured amid concerns that earnings prospects are too high. Home building stocks were among heavy fallers last week.

Technology sector – Dell reported a 54% drop in Q3 income as sales fell sharply, causing it to miss expectations. This resulted in a 7% drop in its shares. Further to this, Bank of America reduced its outlook for Intel and Texas Instruments, from 'buy' to 'neutral', after cutting its view of the semiconductor industry. This led to some profit-taking as IT is the best performing US sector of 2009.



Europe

Overview

European stocks finished the week lower as investors took profits after recent gains, amid concerns about the withdrawal of some stimulus measures by central banks.

Wolseley – The heating and plumbing supplies company saw its value drop by 11% last week, as housing data in the US disappointed investors. This data included housing starts, mortgage applications and loan delinquencies.

Infineon – The CEO of the semiconductor company announced that the company “must continue to be prepared for low levels of revenue”. Infineon only returned to profit in the last quarter. Its shares fell by over 8% following this announcement.



Ireland

Overview

The Irish market finished the week almost 4% lower, led by banking stocks.

Irish Life & Permanent – IL&P sank 25% after a surprise write-down on property assets. The write-down amount included €40m related to a paper loss on a commercial property venture in Luxembourg that the group had committed to invest in. The remainder resulted from losses in its insurance portfolio, as customers exited property funds.



Asia Pacific

Overview

Asian markets gave back their previous week's gain as oil prices fell, the ECB hinted at the removal of stimulus measures and investors' view of the technology sector took a hit. Elsewhere, Japan, the world's second-largest economy, has returned to deflation for the first time in three years. Interest rates in the country are still close to zero.

Bonds

Eurozone bonds gained as investors feared that the current equity rally had outpaced prospects for economic growth, while also worrying about the ECB's comments regarding the removal of emergency cash from the financial system, to deter any inflationary concerns. The Merrill Lynch over 5 year government bond index rose by 0.7% on the week.

Global Outlook

- It is anticipated that the global economy will return to positive growth in 2010 after a further contraction of 1% this year. Unemployment will lag the recovery in the economy, however, so economic conditions will 'feel' weaker than they are. 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 tough 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 it's notable that future rate expectations in the US and eurozone have just reached new lows. Therefore, investors expect that low rates will persist for some considerable time, a feeling that was bolstered by the outcome of recent 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 in a trading range. In the eurozone, peripheral bond markets have seen their spreads over Germany widen again as risk assets suffered a setback.
- Global equity markets valuations remain rich rather than cheap. To date, markets have been able to grind out recoveries from any dips, with sentiment remaining positive on balance. The structure of the rally remains unconvincing, however, as volume remains light and momentum indicators diverge.
- 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 are overweight in the Pacific Basin.

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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

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