

Global Overview

Markets retreat further

Equity markets finished their worst month since February 2009 on a down note, as investors focussed on the concerns surrounding the possibility of Greece defaulting on its debt, along with some disappointing earnings results.

US GDP data

The US government reported a growth rate of an annualised 5.7% for Q4 2009, its fastest rate since Q3 2003. Further to this, separate reports showed that consumer sentiment and business activity improved during the month.

Greece

With many analysts speculating that Greece will require aid, the German Economy Minister ruled out any rescue by German or French taxpayers. The European Commission plans to give an assessment of Greece's budget plan this coming Wednesday.

Euro declines

The euro was under renewed pressure last week as investors speculated that Greece will not be able to meet its debt obligations despite a budget designed to cut its current deficit. The €/£ rate ended the week at 1.39, a fall of 2%, while €/€ finished just below 0.87.

Oil

With the dollar strengthening on the back of risk aversion and better economic data, oil prices retreated, resulting in oil's first monthly decline since July. It finished the week just below the \$73 a barrel mark, a fall of 2% on the week, 8% over the month.

	Index	Year to Date Return 31.12.09 to 29.01.10		1 Week Return 22.01.10 to 29.01.10	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	-3.7	0.6	-1.6	0.2
US	NASDAQ	-5.4	-2.4	-2.6	-0.8
Europe	FT/S&P Europe Ex. U.K.	-3.5	-3.5	-1.3	-1.3
Ireland	ISEQ	0.0	0.0	-2.0	-2.0
UK	FTSE 100	-4.1	-1.9	-2.2	-1.0
Japan	Topix	-0.7	5.5	-4.2	-2.9
Hong Kong	Hang Seng	-8.0	-5.2	-2.9	-1.0
Australia	S&P/ASX 200	-6.2	-4.2	-3.8	-3.7
Bonds	Merrill Lynch Euro over 5 year Govt.	0.8	0.8	0.1	0.1

Global Equities



United States

Overview

US markets retreated as investors shied away from riskier assets due to the concerns surrounding Greece. There were also some disappointing earnings results in the technology sector last week, but over 80% of companies that have reported so far have beaten analysts' estimates.

Motorola – The mobile-phone maker fell by 15% after it projected a surprise first-quarter loss, resulting from new handsets failing to boost sales.

Microsoft – Shares in Microsoft slid almost 3% after its CFO said "the company has yet to see a recovery in spending on enterprise software". This fall in value came despite reporting expectation-beating quarterly profit.



Europe

Overview

Disappointing earnings, worries over Greece and concern over the withdrawal of stimulus measures worldwide led European markets lower over the week.

Banco Bilbao Vizcaya Argentaria – Shares in BBVA fell by almost 9% after the Spanish bank reported a 94% drop in Q4 net income. The main factors contributing to this were a write-down of goodwill on its US business and a larger-than-expected rise in bad loan provisions.



Ireland

Overview

The Irish market finished the week 2% lower, with the financial sector falling the most.

Ryanair – The airline saw its shares rise by 5% in early trading today after announcing a smaller-than-expected loss in Q3. It also increased its profit forecast for its full financial year, which ends in March, to the upper-end of its previously forecasted range.



Asia Pacific

Overview

Asian markets retreated for another week as concerns remain over the Chinese government's move to try and cool economic growth after a surge in lending in January. It is believed that new measures will be introduced to reduce the overcapacity in the steel and cement industries, in order to shift the economy away from a reliance on exports.

Bonds

For another week, eurozone bonds only gained marginally, despite investors' move towards safer assets. German bonds continued to outperform the peripheral markets, such as Greece, as fears remain that the latter will require aid from the European Union. The Merrill Lynch over 5 year government bond index gained 0.1% on the week.

Global Outlook

- As we have been saying for some time, forecasters are positive for global growth during 2010. A key issue is whether private sector demand in Europe and the US is strong enough to allow governments and central banks to withdraw some of the massive stimulus they have been providing. Note that while strains within the financial system have eased considerably, bank lending is still impaired. Partly for this reason, policy makers remain somewhat cautious on the economic outlook and this remains a key variable to watch during the year.
- The long-term implications of the credit burst and the unintended consequences of policy actions are still hot debates in academic, policy and political circles. Broadly, so far, risk assets have responded positively to policy actions and that remains the focus for most market participants.
- Short rates continue to hover in a range between 0% and 1% in the major economies. Investors keep getting nervous about rate expectations in the US and Europe only for policy makers to make soothing comments. At the same time, the latter want to exit from emergency policy settings as quickly as conditions permit, a tricky balancing act which continues to be difficult to communicate. It is notable that end-2010 rate expectations in the US, UK and eurozone are still more or less at their cycle lows. On balance, therefore, investors expect that low rates will persist for some considerable time.
- For bond markets, inflation data remains supportive. As was the case for much of last year, 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 continue to keep bond markets in a broad trading range. Following the recent equity sell-off, which has helped bond markets somewhat, we may be closer to the top of that price range at the moment. In the eurozone, peripheral bond markets have been more volatile of late, with Greece again making a new cyclical high in spread terms last week, but Irish bonds have behaved well in that context.
- Global equity markets remain on the richer side of the neutral valuation line. Markets began the year optimistically but have since corrected by 5%-6% on average, with larger losses in Asia. Fears over a hard landing in China and the negative implications of policy measures regarding the banking system, plus a fiscal crisis in Greece, have offset the positive of earnings' data. It is yet another test to see whether the "grinding higher and shallow retracement" pattern evident for the last few months will continue into 2010. Many argue that the structure of the rally has been less convincing than the pure market levels suggest and that significant risks remain, but so far the overall positive trend remains intact, although investors are growing nervous about recent developments.
- Currently, the funds are closer to neutral in equities and overweight bonds, versus the manager average. Within equity sectors, the funds have gone much closer to neutral, but are still overweight technology and underweight utilities. Geographically, the funds have an underweight position in Ireland, are closer to neutral in the UK, US and Japan, are neutral to overweight in the Pacific Basin and are overweight in Europe.

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