

Global Overview

Equity markets move higher

Equity markets recovered some of the previous week's losses as concerns eased that debt worries would spread to many countries in the eurozone. Markets did finish off the highs reached on Monday (May 10th), though, as some doubt that the ECB's move will be enough hit sentiment.

Eurozone rescue package

European finance ministers unveiled a loan package worth as much as €750bn to support countries facing financial instability. As part of this, the European Central Bank said it will buy government bonds to ease the sovereign-debt crisis that threatens the future of the euro.

US economic data

In the US, economic data pointed towards a strong start to Q2. Retail sales, industrial production and consumer confidence beat expectations, with analysts attributing this to the improvement in the labour market. In April, the number of people on payroll increased by 290k, the most in four years.

Euro declines to fresh lows

Over the week, the euro fell to its lowest level since the collapse of Lehman Brothers in September 2008, as traders feared that some countries may leave the common currency. The €/ \$ rate ended the week at 1.24, a weakening of over 2%.

Commodities

Crude oil declined for another week on concern that Europe's sovereign-debt crisis will reduce economic growth worldwide. The oil price finished at \$72 a barrel, a fall of over 5%. This follows a 13% fall the previous week.

	Index	Year to Date Return 31.12.09 to 14.05.10		1 Week Return 07.05.10 to 14.05.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	0.2	12.1	2.6	4.3
US	S&P 500	1.8	17.4	2.2	4.5
US	NASDAQ	3.4	19.3	3.6	5.9
Europe	FT/S&P Europe Ex. U.K.	-4.2	-4.2	5.2	5.2
Ireland	ISEQ	3.6	3.6	3.3	3.3
UK	FTSE 100	-2.8	1.3	2.7	3.7
Japan	Topix	3.2	20.3	0.5	2.3
Hong Kong	Hang Seng	-7.9	5.8	1.1	3.3
Australia	S&P/ASX 200	-5.3	7.9	2.9	5.3
Bonds	Merrill Lynch Euro over 5 year Govt.	3.5	3.5	2.6	2.6

Global Equities



United States

Overview

US equities finished the week higher, despite paring some of Monday's gains which followed the ECB's commitment to support markets. Attention during the week was focussed on Europe's crisis and its effect on the currency, rather than the strengthening economic data.

IBM – IBM projected that operating profit will jump over the coming four years due to cost savings and an increased demand for its products. It also reiterated that earnings-per-share will grow by more than 10% this year. Its shares gained by 7% over the week.



Europe

Overview

European markets gained strongly following the ECB's loan package to support government debt in the region. Spain and Portugal also announced aggressive spending cuts to help improve finances.

Banks – After the ECB's move, banks were the best performers. Europe's largest bank, HSBC, gained 3% and Barclays 9%, while ING soared 22% after returning to profit in Q1.



Ireland

Overview

The Irish market tracked global markets higher and finished the week up 3%.

Banks – At its AGM, Irish Life & Permanent announced it is planning to raise €900m by the end of the year. Elsewhere, Bank of Ireland announced a rights issue which is expected to net €1.7bn from existing shareholders. Finally, the Government's stake in AIB increased to 18% after the bank paid its dividend with shares, in lieu of a cash payment.



Asia Pacific

Overview

Asian markets gained following further encouraging corporate earnings and hopes that Europe's crisis will not hurt economic growth. A jump in CPI and new measures to cool the property market in China resulted in the Shanghai Index entering a bear market, after falling more than 20% from its peak reached last November.

Bonds

Eurozone bonds gained strongly following the moves taken by the ECB to restore confidence in the region. Yields in Greece, Portugal and Spain tightened dramatically with respect to German Bunds. This was a reversal of the market stresses of the last few months. The Merrill Lynch over 5 year government bond index rose by 2.6% over the week.

Global Outlook

- Forecasters now anticipate that the global economy will expand by around 3.3% this year, a further marginal upgrade on prior forecasts. Inflation pressures in most of the developed economies remain well-behaved and forecasts remain steady at moderate levels globally. A key issue is whether the private sector in Europe and the US is strong enough to allow some of the massive stimulus to be withdrawn. This factor, plus constrained bank lending, makes central banks still somewhat cautious on the economic outlook.
- Concerns about the long-term consequences of the credit burst, and the unintended consequences of a myriad of policy actions, are still to the fore of policymakers' minds and have once more come centre stage after the Greek debt contagion.
- Short rates remain at emergency levels in Europe and the US although rates have been increased in economies such as Australia, India and China. Central bankers in Europe and the US are keen to remove emergency policy settings but they don't want to do so prematurely, a message which has been tricky to communicate at times. Developments in Greece will temper the ECB's timing on any policy adjustment. It is notable that rate expectations for the end of next year have just made new cycle lows in the US, UK and eurozone. On balance, therefore, investors expect that low rates will persist for some time.
- Inflation data, short rates and liquidity conditions continue to be of general support to the major bond markets. The key development has been the collapse in the Greek bond market and the consequent panic in the rest of the periphery. The extraordinary measures of last week aimed to end that panic and should help in the near-term. For the longer-term success of the euro project, there will need to be a more far-reaching set of proposals and we can expect to see those emerge soon. The euro's weakness against the dollar accelerated last week. This provides a stimulus to eurozone exports but may also be seen as a negative judgement on the measures adopted so far. In the meantime, actual or threatened ECB bond purchases, plus abundant liquidity, should keep things much calmer and help spreads to narrow further; as long as inflation remains under control, the ECB will be able to maintain this policy and project solidarity to investors. However, the situation is still very delicate and conviction is low.
- Global equities in aggregate had been behaving very well until they were infected by the Greek-inspired panic. The policy response should provide significant relief and also keep policy easier for longer, especially in Europe, helping to underpin risk markets. However, nervousness was the order of the day all of last week. In the background we have had some good economic and earnings' data, which provide fundamental support for equities, while valuations are still reasonable. Plenty of risks remain but we would still expect to see some gains in markets ahead of us.
- Currently, the funds are neutral to slightly long in equities and closer to neutral in bond weightings, versus the manager average. Within equity sectors, the funds are reasonably balanced but are still overweight technology and some industrials. Geographically, the funds are underweight in Ireland, Pacific Basin and the UK, neutral in Japan and overweight in Europe (and within that, overweight core markets) and the US.

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