

## Global Overview

### Markets slightly lower, volatility remains strong

Most equity markets finished the week slightly lower. Markets had recorded gains early in the week as the earnings' season kicked off, but sentiment soured as economic forecasts were cut and further weak economic data was reported.

### Disappointing data

Fears that the economic recovery in the US is struggling were heightened last week following more weak data. Consumer sentiment fell to its lowest level in a year, while retail sales slowed and inflation remained relatively non-existent. At its regular meeting, the Federal Reserve kept rates at the low of 0.25%, while also trimming its growth expectations for the year.

### Chinese growth

Measures to try to curb a potential property bubble in the region, by introducing property taxes on second homes and boosting the banking reserve ratio, resulted in Q2 economic growth easing to 10.3%.

### Currencies

The dollar experienced its biggest weekly fall against the euro in over a year last week, as investors feared that the US economic recovery is losing momentum. The €/€ rate strengthened by 2.1%, to finish just above 1.29.

### Commodities

Speculation that demand for oil will fall due to the weakening economic picture caused oil to slip and erase its early-week gains. Oil ended the week at \$76 a barrel, unchanged overall. Metals, including copper, aluminium and lead tracked oil during the week, for the same reasons.

	Index	Year to Date Return 31.12.09 to 16.07.10		1 Week Return 09.07.10 to 16.07.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-3.9	4.8	-0.8	-2.6
US	S&P 500	-4.5	6.0	-1.2	-3.3
US	NASDAQ	-4.0	6.5	-0.8	-2.9
Europe	FT/S&P Europe Ex. U.K.	-4.0	-4.0	-1.0	-1.0
Ireland	ISEQ	-4.0	-4.0	-1.0	-1.0
UK	FTSE 100	-4.7	0.2	0.5	0.0
Japan	Topix	-7.4	10.5	-2.4	-2.4
Hong Kong	Hang Seng	-7.4	2.5	-0.6	-2.7
Australia	S&P/ASX 200	-9.2	-2.3	0.6	-2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	3.9	3.9	0.0	0.0

## Global Equities



### United States

#### Overview

US stocks erased early-week gains on Friday on weak economic data and earnings as some of the biggest companies missed expectations.

**Earnings** – Alcoa kicked off the earnings' season with strong earnings which showed a good return to profit from a year ago and this was followed closely by Intel, which beat expectations and boosted sales outlook for the year. This trend didn't continue though as Bank of America announced revenues that missed expectations, causing shares to slump 9%, while Google, Mattel and GE also fell after weaker-than-expected results.



## Europe

### Overview

European stocks finished the week lower as investors focussed on a potential double-dip in the economic recovery worldwide. This comes ahead of the first reports on the banks' stress test results, which are due late this week.

**BP** – BP surged for the third week running as the company temporarily halted the flow of oil in the Gulf of Mexico. There is also speculation it will sell some of its assets in Alaska, potentially worth over €11bn.



## Ireland

### Overview

The ISEQ tracked the rest of Europe lower towards the end of the week, as sentiment soured, resulting in Bank of Ireland, CRH and Elan all falling heavily on Friday. Attention this week turns to Ryanair's and Elan's earnings' releases.



## Asia Pacific

### Overview

Most Asian stocks managed to avoid Friday's sell-off, as markets had already closed, but markets did, however, still finish lower. Stocks had been initially helped by earnings' results in the technology sector, following Intel's upbeat results, before paring gains. Elsewhere, a report showed that Singapore's economy expanded 18.1% in the first half of 2010, resulting in the government raising its 2010 overall outlook to 15%, from 13%.

## Bonds

Eurozone bond markets finished the week unchanged, having recovered their losses late in the week as investors demanded safer assets amid economic uncertainty. There were also good bond auctions in peripheral countries, including Greece, Spain and Portugal, with the high yield attracting investors. The Merrill Lynch over 5 year government bond index finished the week unchanged.

## Global Outlook

- Most forecasters still expect the global economy to expand by around 3.3% this year, although financial market volatility adds to downside risks. Inflation pressures globally remain modest, reflecting weaker data in the US, Europe and Japan and stronger readings in emerging economies and Asia. Bank lending remains weak and this is a worry. Doubts remain about whether the private sector in Europe and the US can grow without continued massive government stimulus; this is an important issue given the clear divide between the largest economies on this subject.
- The eurozone debt crisis has reawakened worries about sovereign creditworthiness, the long-term consequences of the credit burst and the unintended consequences of a myriad of policy actions - factors which periodically increase the risk concerns of equity investors.
- Central banks continue to set interest rates at emergency levels in Europe and the US, although they have risen somewhat in some of the stronger economies such as Australia, Canada, India and China. It is clear that developments in Greece will temper the timing of policy changes across the globe, not just in the eurozone. To that end, 2011 rate expectations remain very close to their cycle lows in the US, UK and eurozone. Investors, therefore, expect that low rates will persist for some time.
- These low short-term interest rates, combined with disinflation concerns and periodic risk aversion, continue to be of general support to the major bond markets such as Germany, the US and Japan. The impact of ECB bond purchases is pretty modest to date and it is possible that more measures will be needed at some stage. Equally, it is clear that the longer-term success of the euro project will require a more centralised fiscal framework than we currently have. Peripheral bond market spreads have been volatile again of late and the situation is still delicate, while investor conviction is low.
- The 4% decline in global equities so far this year masks very substantial volatility, four 7%+ falls and one 14% recovery. While low interest rates certainly provide some forward support to risk markets, the reaction to the US earnings' season and European bank stress procedures has been muted to negative. After the initial July rally, equity market nervousness appears to be returning with investors focusing on downside risks to macroeconomic data. We may see some market weakness in the near term before we can reassess the picture. Ultimately, though, we should not discount the determination of policymakers to attempt to offset risk aversion in equity and credit markets.
- Currently, the funds remain underweight equities and overweight bonds, versus the manager average. Within equity sectors, the funds are reasonably balanced, with a slight overweight in technology and underweight in basics. Geographically, the funds are underweight in Ireland, the UK, Europe and the US, and are neutral in Japan and 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.

