

Global Overview

Equities return to winning ways

Equity markets finished the week higher, as the G20 agreed to maintain economic stimulus efforts to help the economy, earnings worldwide beat expectations and confirmation came that the eurozone returned to growth in Q3.

Eurozone GDP data

Data released showed that the eurozone returned to economic growth in Q3, when it rose by 0.4%, after falling by 0.2% in Q2. Germany's economy expanded by 0.7% and France's by 0.3%. However, Greece and Ireland are two economies that have remained in recession.

US economic data

It was a week of mixed US economic data. New jobless claims hit their lowest level this year, the number of imported goods surged, increasing the trade deficit, and consumer sentiment continued to decline faster than analysts expected.

Currencies

For the second week running, the euro gained against the dollar as investors cheered the eurozone's return to growth, heightening the appeal of risk-assets. The €/£ hit its highest level since August 2008, just below 1.505, but retreated slightly to finished at 1.49, a gain of 0.6%.

Oil

Oil prices dropped to a one-month low after consumer confidence in the US declined further last month. This signals a slowing in consumer demand and, consequently, lower demand for oil. The oil price finished the week at \$76 a barrel, a decline of almost 1.5%.

	Index	Year to Date Return 31.12.08 to 13.11.09		1 Week Return 06.11.09 to 13.11.09	
		Local Currency %	Euro %	Local Currency %	Euro %
US	S&P 500	21.1	13.2	2.3	1.7
US	NASDAQ	37.5	28.5	2.6	2.0
Europe	FT/S&P Europe Ex. U.K.	22.7	22.7	2.6	2.6
Ireland	ISEQ	27.5	27.5	0.5	0.5
UK	FTSE 100	19.4	27.9	3.0	3.0
Japan	Topix	0.9	-4.4	-0.8	-1.1
Hong Kong	Hang Seng	56.8	46.5	3.3	2.7
Australia	S&P/ASX 200	26.4	56.5	2.4	3.7
Bonds	Merrill Lynch Euro over 5 year Govt.	4.1	4.1	0.4	0.4

Global Equities



United States

Overview

US markets gained strongly over the week, with some indices now at one-year highs once again. The pledge by the G20 to maintain stimulus plans helped sentiment, along with earnings and good economic data. Walmart, Disney and American Express were some of the best gainers in the Dow Jones Index.

American Express – The credit card company saw its shares rally over 8% after a report showed worldwide spending rose in October.

Disney – Disney gained by almost 7% after it announced earnings results and sales that far exceeded analysts' forecasts.



Europe

Overview

European stocks finished the week higher on the back of good earnings results, further merger & acquisition activity and the return to growth of the eurozone region.

British Airways/Iberia merger – After more than a year of negotiations, the merger between the two airlines was finally agreed upon. In an all-share deal, BA investors will own 55% of the business. Both airlines rose over the week, BA by 9%, Iberia by 7.5%.

Earnings results – Financial group, Credit Agricole, and industrial company, Holcim, both announced expectation-beating earnings last week.



Ireland

Overview

The Irish market lagged gains on other markets as investor confidence and the outlook for the global economy improved.

Paddy Power – Paddy Power was one of the biggest risers on the ISEQ after it released a positive management statement reaffirming full year guidance, and also revealed a new deal with the French race betting operator, PMU.



Asia Pacific

Overview

Last week saw Asian stocks break a three-week losing streak. Worldwide economic data and earnings results helped, along with strong Chinese production data. Chinese production in October climbed the most since March 2008, well exceeding forecasts, while Japanese machinery orders also rose sharply.

Bonds

European bonds advanced last week after ECB policy makers signalled they are not ready to start withdrawing some of the emergency measures implemented to aide the economy, despite its return to growth in Q3. The Merrill Lynch over 5 year government bond index rose by 0.4% 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 is 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 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. The price action of the past couple of weeks 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 are overweight in the Pacific Basin.

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