

Global Overview

Equity markets plunge

Equity markets finished the week sharply lower, as fears that the European debt crisis may spread within the region rose. At the ECB's regular meeting, investors had been hoping the Bank would announce details to buy eurozone bonds, but this failed to materialise. Over the weekend the ECB changed its stance, however.

Eurozone rescue package

Over the weekend, 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 employment data

Payrolls in the US for April showed that employment rose by the most in four years, when 290,000 jobs were added in the month. The jobless rate rose to 9.9% though, as thousands of unemployed people entered the workforce in search of work.

Euro declines

During last week, the euro fell the most since October 2008 after the ECB's monetary policy meeting failed to ease concern that Greece's crisis would ease. This resulted in €/ \$ rate ending the week at 1.27, a weakening of 4%. Actions over the weekend have supported the euro, and the €/ \$ rate traded around 1.30 during Monday (May 10th).

Commodities

Crude oil posted its biggest weekly decline in 16 months as economists feared that Europe's debt-crisis will slow the economic recovery worldwide. The oil price finished at \$75 a barrel, a fall of almost 13%.

	Index	Year to Date Return 31.12.09 to 07.05.10		1 Week Return 30.04.10 to 07.05.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-2.4	7.4	-6.8	-3.7
US	S&P 500	-0.4	12.4	-6.4	-2.2
US	NASDAQ	-0.2	12.6	-7.9	-3.8
Europe	FT/S&P Europe Ex. U.K.	-8.9	-8.9	-9.8	-9.8
Ireland	ISEQ	0.3	0.3	-12.2	-12.2
UK	FTSE 100	-5.4	-2.3	-7.7	-6.8
Japan	Topix	2.7	17.6	-5.6	1.1
Hong Kong	Hang Seng	-8.9	2.4	-5.6	-1.7
Australia	S&P/ASX 200	-8.0	2.5	-6.8	-6.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.9	0.9	-1.4	-1.4

Global Equities



United States

Overview

US equities fell heavily over the week, resulting in the main indices erasing their 2010 gains. The VIX, a measure of market volatility, surged by 86%, its biggest ever weekly rise.

Sectors – Fears that Europe's crisis could derail the economic recovery caused both materials and industrial stocks to fall around 8%, making them the weakest sectors on the S&P 500 index.

Apple – Shares in the company retreated almost 10% after Nokia filed a patent-infringement lawsuit against the iPhone and iPad.



Europe

Overview

European stocks fell the most in 18 months as fears for the euro intensified following the ECB's lack of action at its meeting on Thursday. Developments over the weekend have improved the outlook, though, and markets have risen over 6% during trading on Monday (May 10th).

Earnings – Last week saw a large number of earnings release for Q1 in Europe. On balance, results came in ahead of expectations, but these were overshadowed by economic concerns.



Ireland

Overview

The Irish market was the weakest performer on the week, as CRH & Ryanair, which make up 50% of the index, fell by 17% and 10% respectively.

CRH – In an interim management statement, the group said that bad weather in early 2010, especially in North America and Northern Europe, will cause H1 sales to be slightly behind target. Sales during March and April rebounded due to "more normal weather patterns".



Asia Pacific

Overview

Asian markets fell in line with the rest of the world, due to the concerns in the eurozone and a report showing a slowing in China's manufacturing growth. HSBC, being Europe's largest bank, fell by 9%, while Canon, which relies heavily on the European market, fell by 7%. Elsewhere in the region, Chinese property measures and the increase in the banking reserve ratio are still dragging on markets.

Bonds

Eurozone bonds retreated over the week after the ECB initially resisted pressure from economists to buy government bonds to try to stop the Greek debt crisis spreading. Yields in Greece, Portugal and Spain widened to record levels with respect to German Bunds. The Merrill Lynch over 5 year government bond index fell by 1.4% over the week.

Global Outlook

- Most economists expect that the global economy will grow by around 3.2% this year, following a contraction of just over 2% last year. Inflation pressures in most of the developed economies remain well behaved and, at the margin, are still being revised lower. A central 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 but investors tend to have only a periodic concern for them, such as last week.
- 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 do not 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 in the US, UK and eurozone are less than 0.25% above their recent cycle lows. On balance, therefore, investors expect that low rates will persist for some time.
- Inflation data, short rates and liquidity conditions continue to support most 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 at the weekend will likely end the panic near-term. For the longer-term success of the euro project, there will need to be a more far-reaching set of proposals. In the meantime, actual or threatened ECB bond purchases, plus abundant liquidity, should keep things much calmer and help spreads to narrow significantly; as long as inflation remains under control the ECB will be able to maintain this policy and project solidarity to investors.
- Global equity markets had been behaving very well but were eventually infected by the Greek-inspired panic. The unprecedented weekend package of measures should provide significant relief and also keep policy easier for longer, especially in Europe, helping to underpin risk markets. In the background, we have had some good economic and earnings' data, which provide fundamental support for equities, plus valuations are still reasonable. Plenty of risks remain but relief will be the order of the day for the next while.
- 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, the Pacific Basin and the UK, neutral in Japan and overweight in Europe and the US.

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