

Global Overview

Markets rally

Equity markets worldwide rallied as investors digested news of the Federal Reserve's latest move to try support the economic recovery. Markets rose most days last week, with some also hitting highs not seen for two years.

US quantitative easing (QE)

At its regular meeting, the Federal Reserve announced it would launch another programme to buy US debt, in order to keep borrowing costs low and to try to add momentum to the economic recovery. It said that \$600 billion would be made available for these purchases, which is more than the \$500 billion analysts had been expecting.

Jobs data

Last month in the US, 151,000 new jobs were created, which well exceeded investors estimates. While the unemployment rate remained at 9.6%, this jump in jobs gave investors a boost, prior to the new QE programme being implemented.

Dollar

The dollar came under further pressure early in the week, in anticipation of the Fed's QE announcement. The positive jobs data gave it some support though, after the dollar had weakened to a level not seen since last January. The €/£ rate ended the week at almost 1.41, having been close to 1.43 midweek.

Oil

Oil prices hit a two-year high as the dollar weakened against most major currencies and the jump in payrolls data for October. Oil finished close to \$87 a barrel, a weekly gain of over 6%.

	Index	Year to Date Return 31.12.09 to 05.11.10		1 Week Return 29.10.10 to 05.11.10	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	8.2	13.5	3.0	2.6
US	S&P 500	9.9	12.0	3.6	2.5
US	NASDAQ	13.7	15.8	2.9	1.7
Europe	FT/S&P Europe Ex. U.K.	4.9	4.9	1.5	1.5
Ireland	ISEQ	-9.2	-9.2	0.6	0.6
UK	FTSE 100	8.5	11.0	3.5	3.6
Japan	Topix	-8.0	7.3	3.0	0.8
Hong Kong	Hang Seng	13.7	15.9	7.7	6.5
Australia	S&P/ASX 200	-1.4	13.5	3.0	5.4
Bonds	Merrill Lynch Euro over 5 year Govt.	6.2	6.2	0.0	0.0

Global Equities



United States

Overview

The S&P 500 Index recorded its best week in two months after the Fed's announcement and some encouraging jobs data. In earnings news, of the 436 S&P 500 companies that have reported third-quarter earnings so far, almost 75% have exceeded analysts' estimates.

Stocks – Alcoa, American Express and Caterpillar all saw shares jump as investors speculated that the Fed will manage to boost economic growth over the coming months. Elsewhere, Qualcomm, the largest company making mobile-phone chips, gained 7% after expectations-beating results.



Europe

Overview

European markets followed the rest of the world higher as the boost given to the US economy offset peripheral sovereign-debt default concerns in the eurozone.

HeidelbergCement – The third-largest maker of cement and concrete announced Q3 profit which beat estimates, sending its shares 11% higher. The construction sector got a boost following this, with CRH's shares gaining 10% over the week.



Ireland

Overview

The Irish market was one of the weakest markets last week, as the cost of insuring Irish debt and the credit spread versus 10-year German bonds rose to record highs.

Banking stocks – Following the move on credit and bond markets, Bank of Ireland, Irish Life & Permanent and Allied Irish Banks dropped 20%, 31% and 20% respectively.



Asia Pacific

Overview

Last week, Asian markets had their biggest weekly gain of 2010, as optimism of economic growth momentum in the US picking up again gave markets a boost. Stocks including Japan's biggest commodity trading company, Mitsubishi Corp, offshore oil explorer, Cnooc and mining companies BHP Billiton and Rio Tinto all saw shares jump as commodity prices rose following the Fed's announcement and the weakening dollar.

Bonds

The cost of insuring Ireland's sovereign debt hit a new record as the government struggles to convince investors it can reduce the budget deficit through spending cuts alone. Investors are closer to believing that Ireland will find it difficult to re-enter the bond market in the New Year. The Merrill Lynch over 5 year government bond index was unchanged over the week.

Global Outlook

- Global growth forecasts for next year are fairly healthy although at the margin they are being revised lower rather than higher at the moment. Asian economies remain strong, driving export demand from some European economies; the global economy is still quite lopsided and the underlying strength of private sector demand in Europe and the US remains a key concern. Inflation pressures globally remain modest, reflecting weaker data in developed economies and stronger readings in emerging economies and Asia. Indeed for Europe and the US, further disinflation is probably a greater near-term concern than inflation.
- 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 Canada, India and China. In the US and UK, 2011 rate expectations continue to make new cycle lows although they have risen by 0.4% from their cycle lows in the eurozone due to ECB actions seeking to normalise monetary policy. Some of this seems premature at this stage given the precarious state of some of the peripheral economies and on balance we would expect rates to continue to remain low for some time to come.
- Low short-term interest rates and disinflation concerns, have been a support to major bond markets such as Germany, the US and Japan; long-term interest rates have recently fallen to record or near record levels in the US and Japan although German rates have risen 0.3% from earlier lows. Irish 10 year bond spreads versus Germany are now at 5.25% which is a new and unsustainable level. Greek spreads are not far from the wides that prevailed before its rescue package was put in place. Ireland has certainly funded well this year and has a large cash buffer. However, the risk remains that investors continue to probe the credibility of the rescue mechanism in place for eurozone countries; if so, a rocky road still lies ahead for Irish bonds.
- Global equities are 8% ahead year-to-date but it has been a period of very high volatility with several large gains and falls over that time. Partly because of this, investors' convictions have been low and holding periods have been short. Low interest rates certainly provide some forward support to risk markets and earnings' expectations have been managed well by companies. The initial reaction to the Fed's further quantitative easing policy ("QE2") has been positive and markets appear to have broken out of previous ranges. However, sentiment has already rebounded meaning that the fuel for further gains may be limited in the very short-term. Within the eurozone, the peripheral markets have begun to underperform which bears watching also.
- Currently, the funds are neutral equities and overweight bonds versus the manager average. Within equity sectors, the funds are now reasonably balanced. Geographically, the funds are underweight in Ireland, the UK and the US, overweight in Europe, further overweight in Pacific Basin and closer to neutral in other markets.

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.

Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

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