

Global Overview

Equity markets fall

Global equity markets came under pressure last week, with nervous investors switching out of riskier assets on the back of the situation in Libya and the increasing risk that political unrest could escalate across the Middle East region. Surging oil prices, as a result of supply disruption concerns, along with some mixed GDP data undermined investor risk appetite.

US economic data

The US economy grew by a lower-than-forecast 2.8% annual rate in Q4 2010. On a positive note, however, the number of Americans filing first-time claims for unemployment benefits fell.

German business confidence

The German business confidence index unexpectedly rose to a fresh record high in February as booming exports increased hiring and consumer spending levels.

UK economic data

The minutes of the latest Bank of England meeting revealed that three members out of the nine-strong monetary policy committee voted to raise interest rates. Elsewhere, UK GDP growth was disappointingly revised down to -0.6% for the final quarter of 2010.

Currencies & oil

The euro gained ground against the dollar amid speculation about tighter monetary policy by the European Central Bank. The €/£ rate ended the week at 1.38. Across commodity markets, Brent crude oil prices reached a two-and-a-half year high of almost \$120 a barrel, as markets worried about cuts to production levels and the risk of political unrest spreading across the region. Along similar lines, the West Texan oil price rose to almost \$98 a barrel, a gain of almost 14% on the week.

	Index	Year to Date Return 31.12.10 to 25.02.11		1 Week Return 18.02.11 to 25.02.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.7	1.7	-1.8	-2.4
US	S&P 500	4.9	1.9	-1.7	-2.4
US	NASDAQ	4.8	1.8	-1.9	-2.5
Europe	FT/S&P Europe Ex. U.K.	3.8	3.8	-2.0	-2.0
Ireland	ISEQ	2.0	2.0	-2.1	-2.1
UK	FTSE 100	1.7	2.0	-1.3	-2.8
Japan	Topix	4.8	1.0	-3.3	-2.3
Hong Kong	Hang Seng	-0.1	-3.2	-2.5	-3.2
Australia	S&P/ASX 200	1.9	-1.7	-2.0	-2.6
Bonds	Merrill Lynch Euro over 5 Year Govt.	-0.5	-0.5	0.4	0.4

Global Equities



United States

Overview

Elevated oil prices, escalating tensions in North Africa and the Middle East combined with some disappointing economic and corporate earnings' results (Hewlett-Packard and Wal-Mart) all contributed to US stocks falling last week. Despite stocks paring losses on Friday, US equities ended the week almost 2% lower.

Hewlett Packard – The world's largest PC maker reported lower-than-expected revenue and has trimmed its full-year revenue outlook. Despite the company reporting sales of \$32.3 billion in its first fiscal quarter, compared to \$31.2 billion in the same period a year earlier, this was lower than analysts' expectations.



Europe

Overview

Despite the release of better-than-expected economic data last week, European markets fell 2%, with worries that rising oil prices could slow down the global recovery. The spike in oil prices resulted in energy out-performing, with cyclicals, mainly travel & leisure, autos and industrials heaviest hit.

Earnings – Single stock news was largely dominated by earnings, with Lloyds, Allianz and Deutsche Telecom disappointing, while Credit Agricole and Capita surprised on the upside.



Ireland

Overview

The Irish market fell in line with other markets, to end the week 2% lower.

Irish Banks – The Irish High Court approved the transfer of over €12 billion in deposits out of Anglo Irish Bank and Irish Nationwide Building Society to AIB (€8.6 billion) and Irish Life & Permanent (€3.6 billion). These transfers will improve the funding and liquidity of both banks.

Kerry Foods – The Irish food maker reported better-than-expected 2010 results as its changed operational model, the “go to market” strategy, appears to be delivering bigger cost savings and greater revenue synergies than first anticipated by the market.



Asia Pacific

Overview

Rising oil prices combined with political unrest caused Asian equity markets to retreat last week. Both the Hong Kong Hang Seng Index and Japan's Topix ended the week between 2% and 3% lower. Elsewhere, weaker exports to key markets resulting from a stronger yen, gave Japan its first trade deficit in 22 months. In other news, Hong Kong's economy expanded by 6.8% in 2010 as it benefited from business ties with mainland China.

Bonds

The current geopolitical uncertainty across the Middle East region and disappointing economic growth numbers (US & UK) resulted in some profit-taking among investors as they moved away from risky equity assets towards those with safe haven status. As a result, bond markets enjoyed a reasonable week, with the Merrill Lynch over 5 Year Government Bond Index gaining 0.4% over the week.

Global Outlook

- Expectations for economic growth this year remain fairly healthy. A strong Asia with some spreading inflation concerns plus a two-tier European economy are two familiar themes by now. In the US, growth is projected to be steady this year after a good 2010. Inflation is forecast to remain a regional or country-specific concern for investors rather than a global problem; meanwhile, currency tensions are spreading more widely as more countries seek to resist currency strength and these could become a focus for investors at some stage this year.
- Developed country central banks continue to set interest rates at emergency levels, although they have risen elsewhere already. ECB commentary over the past few weeks has resulted in investors anticipating the first ECB hike before year end, even if it might be very difficult for some of the peripheral economies to absorb higher interest rates. The Fed may stay on hold for longer but rates are still anticipated to rise there in the next 12 months.
- German and US long-term interest rates have risen more than 1% from their cyclical lows, in line with higher short rate expectations and better growth numbers. Indeed, the general consensus is that German and US yields will rise further over the course of 2011, although they may fall further in the immediate term. Spreads in peripheral eurozone markets continue to be another major focus of investors, with investors concerned that they are being softened up for sovereign default in the weaker eurozone countries. It still seems unlikely that we will get through this peripheral debt crisis without a more comprehensive mechanism than is currently on the table, but this debate ebbs and flows on a constant basis and investors react accordingly.
- Global equities have risen by just under 2% in euro terms so far this year but there is still a general market expectation for further gains, on the basis of reasonable valuations and mid-teens earnings' growth. In the short-term better earnings' numbers have been offset by worries about high oil prices, the crisis in the Middle East, widening eurozone peripheral debt spreads and high sentiment numbers. We can expect gains during the year to be accompanied by volatility and we can anticipate unspecified “surprises” over the next 12 months, as experienced last year.
- Currently, the funds are slightly underweight equities and slightly overweight bonds, versus the manager average. Within equity sectors, the funds are overweight technology and energy and underweight healthcare and financials, with other positions reasonably balanced. Geographically, the funds are underweight in Ireland and Europe, overweight Japan and neutral in the US and in other regions.

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