

Global Overview

Equity markets fall

Global equity markets came under pressure last week as mixed economic data and disappointing corporate earnings' releases, along with the ongoing European sovereign debt crisis, chipped away at investor confidence. This prompted a switch out of equities and oil and into assets of safe haven status such as "core" country bonds and gold.

US economic data

Rising food and petrol prices pushed up the annual rate of US inflation from 2.1% in February to 2.7% in March. However, the core rate of inflation proved benign, rising by just 0.1% to 1.2%. Initial jobless claims showed a surprise jump and latest retail sales numbers disappointed.

Eurozone data

Inflation in the eurozone region rose by a higher-than-expected 2.7% in March, from 2.4% in February, largely driven by rising transport and housing costs. This is the fourth consecutive month that inflation has been above the ECB's target rate of 2%.

Greek debt

Worries that Greece may have to restructure its debt caused Greek bond spreads to reach fresh highs last week. The gap between Greek and German bond yields rose to 10%.

Currencies

The dollar dropped to a fifteen-month low of \$1.4520 against the euro on Wednesday, on the back of weak US economic data releases. Despite this the euro gained just 0.1% on the week against the dollar, ending it at 1.44.

Commodities

Despite the ongoing political unrest in the Middle East and North Africa, the oil price (West Texas) fell back last week amid worries that rocketing energy prices will hurt global demand. Over the weekend, Saudi Arabia announced a plan to slash oil output by 800,000 barrels per day in March, due to oversupply. The West Texas oil price finished close to \$110 a barrel, a weekly loss of 3%. Elsewhere, gold advanced to a record high above \$1,486 per troy ounce.

| | Index | Year to Date Return 31.12.10 to 15.04.11 | | 1 Week Return 8.04.11 to 15.04.11 | |
|-----------|--------------------------------------|---|-----------|--------------------------------------|-----------|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| Global | FTSE World | 3.0 | -2.2 | -1.2 | -0.9 |
| US | S&P 500 | 4.9 | -2.9 | -0.6 | -0.8 |
| US | NASDAQ | 4.2 | -3.5 | -0.6 | -0.7 |
| Europe | FT/S&P Europe Ex. U.K. | 2.1 | 2.1 | -1.5 | -1.5 |
| Ireland | ISEQ | 2.3 | 2.3 | -0.5 | -0.5 |
| UK | FTSE 100 | 1.6 | -1.6 | -1.0 | -1.3 |
| Japan | Topix | -6.4 | -15.5 | -1.4 | 0.6 |
| Hong Kong | Hang Seng | 4.2 | -3.6 | -1.6 | -1.8 |
| Australia | S&P/ASX 200 | 2.3 | -2.2 | -1.8 | -1.6 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | -1.3 | -1.3 | 0.4 | 0.4 |

Global Equities



United States

Overview

US equities experienced choppy trading in the early part of last week as some disappointing Q1 earnings' releases (Alcoa, Bank of America and Google) and falling oil prices dampened investor enthusiasm. On Friday markets recovered somewhat, boosted by strong regional manufacturing and lower-than-expected core consumer inflation data releases.

Bank of America – The US bank reported a 45% decline in first-quarter earnings as the foreclosure crisis continued to squeeze its home loan business.



Europe

Overview

European stocks retreated almost 2% as disappointing earnings, along with worries over peripheral eurozone debt, unsettled markets.

Philips – The Dutch electronics company reported that first-quarter earnings declined 32% due to losses at its television-making division, with net profit coming in at €137 million, down from €200 million a year earlier.



Ireland

Overview

The Irish market followed the rest of the world lower over the course of the week.

Irish banks – State-rescued AIB revealed that its losses grew to €10.4 billion in 2010, adding that it plans to axe more than 2,000 jobs by the end of the year. Similarly, Bank of Ireland announced that net losses narrowed to €609 million in 2010, but warned of challenging times ahead as it seeks to raise fresh capital.



Asia Pacific

Overview

Asian markets retreated last week, with worries over Japan's ongoing Fukushima nuclear incident, combined with disappointing earnings' results, unnerving investors. Rising inflation and strong growth numbers also triggered speculation that the Chinese authorities may have to adopt further measures to cool its economy. China's consumer price index, a main gauge of inflation, rose 5.4% in March from a year ago, the fastest pace for almost three years. China's first-quarter GDP came in at a very healthy 9.7% from a year earlier.

Bonds

The current geopolitical uncertainty across the Middle East, sovereign debt worries and a disappointing start to the earnings season 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

- The Global purchasing managers' survey appears to have rolled over – albeit from a relatively high level – and this is consistent with economists' forecasts that global growth rates, while being fairly healthy again this year, have probably peaked. Inflation remains a regional or country-specific concern for investors rather than a global problem but there are some shared concerns, such as energy and food prices. Countries are still resisting currency strength, a sign that central banks are not yet particularly concerned about inflation.
- Developed country central banks continue to set interest rates at emergency levels, although they have risen elsewhere already. After the recent ECB rate hike, investors expect that rates could rise by a further 0.75% by year end, even if these increases might be difficult for some of the peripheral economies to absorb. The Fed may stay on hold for longer but rates are still anticipated to rise in the first quarter of 2012.
- 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. Spanish bond spreads have behaved well and the initial reaction to the Irish bank stress tests was positive, with spreads narrowing from their record highs. The Portuguese loan announcement was much anticipated and, so far, there has been no positive reaction there. With talk of Greek "restructuring" becoming more prevalent, it still is the case that investors worry that they are being softened up for sovereign default in the weaker eurozone countries.
- Amidst a volatile start to the year, global equities are slightly negative in euro terms but have been pretty resilient in the face of surging oil prices, political turmoil in the Middle East and the Japanese disaster. To date, rising bond yields have also been taken reasonably well as they are deemed to reflect a "normalisation" of the global economy following the financial crisis. There is still a general market expectation for gains during the year on the basis of reasonable valuations and mid-teens earnings' growth. However, changes to earnings' expectations have become much less positive and this tends to be tricky for markets. A choppy consolidation period is more likely for now, with the reaction to the current US earnings' announcements being important in that regard.
- Currently, the funds are underweight equities and neutral bonds, versus the manager average. Within equity sectors, the funds are overweight technology and underweight healthcare and financials, with other positions reasonably balanced. Geographically, the funds are underweight in Ireland, the UK and Europe, are neutral in the US and Japan and are overweight in the Pacific region.

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