

Global Overview

Equity market volatility

With the exception of strong gains in Asia, most markets finished what was a choppy week relatively flat. Worries surrounding the Greek debt crisis, combined with concerns about the US economy and disappointing company results overshadowed any positive data releases.

Greek crisis

Despite the Greek government successfully surviving a confidence vote last week, 5-year credit default swap spreads widened even further as concerns about the country's financial crisis worsened. In the coming week, the Greek Prime Minister George Papandreou will seek to steer an austerity bill through Parliament.

US economic data

In its latest policy statement, the Federal Reserve lowered 2011 GDP growth forecasts, noting inflationary concerns but not signalling any further quantitative easing programme. Sales of new homes for May fell back after two months of strong increases, while more Americans filed for jobless benefits.

Bank of England minutes

Despite two members voting for an increase in interest rates, the minutes of the Bank of England's latest meeting revealed that some committee members are in favour of further quantitative easing on the back of a weakening growth outlook.

Currencies

The euro lost ground against the dollar last week as worries over Greece's debt crisis continued to undermine it. However, it rebounded late in the week following news that Greece had reached a deal with international lenders on an austerity plan and the release of better-than-expected German Ifo numbers. The €/£ rate ended the week at 1.42, almost 1% lower.

Oil

The oil price (West Texas) fell lower last week, after western governments agreed to release 60 million barrels of oil from reserves to offset Libyan production losses. The oil price fell \$2, to end the week at \$91 a barrel, a decline of 2%.

	Index	Year to Date Return 31.12.10 to 24.06.11		1 Week Return 17.06.11 to 24.06.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-0.9	-4.5	0.0	0.7
US	S&P 500	0.9	-4.9	-0.2	0.6
US	NASDAQ	0.0	-5.7	1.4	2.2
Europe	FT/S&P Europe Ex. U.K.	-3.3	-3.3	-1.5	-1.5
Ireland	ISEQ	-0.1	-0.1	-0.1	-0.1
UK	FTSE 100	-3.4	-6.7	-0.3	-0.6
Japan	Topix	-7.3	-11.7	3.5	4.1
Hong Kong	Hang Seng	-3.7	-9.4	2.2	3.1
Australia	S&P/ASX 200	-5.0	-7.9	0.5	0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	0.5	0.5	-0.2	-0.2

Global Equities



United States

Overview

The US market (S&P 500 Index) finished a volatile week slightly lower on the back of the Federal Reserve's lower growth forecast, worries over the Greek sovereign debt crisis and some disappointing company results.

Oracle – Despite a rise in overall fourth-quarter earnings, the software giant lost ground last week after reporting disappointing growth in its hardware division.



Europe

Overview

European markets fell over 1% last week as uncertainty about Greece's ability to execute austerity measures weighed heavily on investor sentiment.

Philips Electronics – The stock lost almost 7% over the week after the Dutch electronics maker issued a profit warning. It reported weaker-than-expected market conditions, especially within its consumer lifestyle and lighting divisions.



Ireland

Overview

The Irish market ended the week slightly lower.

Irish banks – Bank of Ireland noted that the first results of its offer to buy back debt from subordinated bondholders or swap debt for shares is likely to result in the Irish government owning a lower than previously expected stake of the bank. Conversely, the other "pillar bank" AIB acknowledged that it is likely the State's stake will increase beyond the current 93% holding.



Asia Pacific

Overview

Asian stocks made healthy gains last week. Japan's Topix gained over 3%, while Chinese indices rose over 4%, boosted by comments from Chinese Premier Wen Jiabao who signalled that CPI is close to its peak. If so, the need for further Chinese monetary tightening diminishes.

Bonds

Fiscal concerns over peripheral countries escalated further last week, sending the cost of insuring against government default in such economies even higher. Despite the release of disappointing US growth figures and risk aversion within equity markets being notable positives for core bond markets, eurozone bonds lost out again to the safety of their US counterparts. Elsewhere, credit-rating agency Moody's warned that it could downgrade the long-term rating of 17 Italian banks, following its announcement that it had put the country's sovereign debt rating on review for possible downgrade. The Merrill Lynch over 5 year government bond index ended the week 0.2% lower.

Global Outlook

- Leading indicators of economic activity suggest that global growth rates have probably peaked for now, while investors are deciding if it is a mid-cycle pause or something more significant. Inflation remains more of a regional or country-specific concern for investors – particularly in some Asian countries – rather than a global problem, but there are some shared concerns, such as energy and food prices. To date, there are no major countries actively seeking currency strength, an indicator that central banks are not yet particularly concerned about inflation.
- Official interest rates in the US and eurozone remain close to emergency levels. Investors continue to push out the timing of the first Fed rate increase, which is now put at September 2012. Meanwhile, expectations for further ECB rate hikes before year end have remained at around 0.4% for some weeks now. However, the ECB faces a difficult balancing act, with the peripheral economic position a considerable complication to its decision-making. Partly because of this risk, it is plausible that this new hiking cycle will be quite a short one.
- Although forecasters continue to anticipate that German and US long-term interest rates will rise during the course of the year, the recent fall from their cyclical peaks may extend further amid concerns over a growth slowdown. While worries are beginning to emerge over Spanish bond spreads, they remain contained to date – but could become more substantial – and the major concern still rests with Greece. Investors are experiencing "periphery fatigue" with a seemingly endless series of announcements and crisis talks on the matter. Talk of "restructuring" in Greece is centre-stage, with investors also pricing for significant sovereign default in both Portugal and Ireland.
- Amidst a volatile start to the year, global equities are down around 4.5% in euro terms. As we have said many times this year, they have been pretty resilient in the face of the bad news that has hit markets such as surging oil prices, political turmoil in the Middle East, and the Japanese disaster and the euro debt crisis. There is still a general market expectation for gains during the year on the basis of reasonable valuations and earnings' growth. Actual earnings' data has been better than expectations of late, although changes to earnings' expectations have become less positive of late. In the short-term, more talk of peripheral default concerns over the impact of Chinese monetary tightening and the peaking of global growth expectations may cause some further risk aversion. Sentiment has been battered somewhat in recent weeks but this may have further to run in the near term before investors' positive conviction levels return.
- Currently, the funds are underweight equities and modestly overweight bonds, versus the manager average. Within equity sectors, the funds are underweight financials and pharmaceuticals and overweight technology. Geographically, the funds are underweight in most areas but remain overweight the Pacific region.

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.