

## Global Overview

### Equity markets retreat

It was an extremely volatile week for markets as Greece's Prime Minister caused panic by first calling for a referendum to decide whether to accept the latest bailout plan, then reversing his decision late in the week, in a move that resulted in him stepping down from his position and the formation of a new unity government. This uncertainty surrounding the aid package caused markets to finish lower overall.

### Federal Reserve

At its latest meeting, the Fed announced it had left interest rates unchanged but kept the door open to further steps to prop up the US economy should it be necessary. Officials said that "significant downside risks" still remain, despite a pick up in the economy during Q3.

### US jobs data

US employers added 80,000 jobs in October. While this disappointed analysts, the fact that the previous two months' figures were revised upwards helped the jobless rate fall to a six-month low of 9%.

### European Central Bank

Mario Draghi presided over his first ECB meeting, during which the bank unexpectedly cut its key interest rate by 0.25%. This reverses one of this year's rate hikes and leaves rates at 1.25%.

### Currencies & oil

In currency markets, the euro had its worst week against the dollar in two months, as the Greek political situation threatened to damage the recently-announced plan which aims to stem the region's debt crisis. The €/£ rate ended the week at 1.38, a decline of 2.6%. Oil extended its run of weekly gains on speculation that the drop in the jobless rate will result in increased demand and production. The West Texas oil price rose 1% to finish the week at \$94 a barrel.

	Index	Year to Date Return 31.12.10 to 04.11.11		1 Week Return 28.10.11 to 04.11.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-5.3	-7.1	-2.7	-1.0
US	S&P 500	-0.4	-3.4	-2.5	0.1
US	NASDAQ	1.3	-1.9	-1.9	0.8
Europe	FT/S&P Europe Ex. U.K.	-16.4	-16.4	-5.1	-5.1
Ireland	ISEQ	-7.6	-7.6	-3.3	-3.3
UK	FTSE 100	-6.3	-6.5	-3.1	-0.9
Japan	Topix	-16.3	-15.8	-2.5	-3.0
Hong Kong	Hang Seng	-13.9	-16.5	-0.9	1.7
Australia	S&P/ASX 200	-9.8	-11.2	-1.7	-2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	2.4	2.4	0.4	0.4

## Global Equities



### United States

#### Overview

The S&P 500 index fell for the first week since September after some disappointing data, even though the unemployment rate saw a slight decline, and due to ongoing fears that Europe's debt crisis is not being helped by the Greek Prime Minister's comments regarding the referendum.

**Sectors** – All ten sectors in the S&P 500 index fell during the week, with financial stocks being the weakest due to concern about potential losses from Europe. Consumer stock, Abercrombie & Fitch, also fell due to a slowing trend in Europe, along with a decline in same-store sales in Japan & Canada.



## Europe

### Overview

European equities were the largest fallers over the week due to the uncertainty surrounding the recently announced plan to tackle the region's debt crisis.

**Commerzbank** – It was a bad week for European banks also, with Germany's second-largest bank reporting a Q3 loss of almost €700 million as a result of its writing-down of its Greek government-debt holdings. Its shares finished the week 6% lower.



## Ireland

### Overview

The Irish market was also extremely volatile, but followed world markets lower and finished 3% down overall.

**Kerry Group** – Shares in the company finished the week lower but were helped after an interim management statement said its performance so far this year had been slightly ahead of market expectations. It said its Irish consumer market continued to struggle but the ingredients and flavours division still performed positively.



## Asia Pacific

### Overview

Asian markets fell last week, with the region's benchmark index, the MSCI Asia Pacific Index, recording its biggest weekly loss in six weeks. The eurozone worries and a slowing of China's manufacturing growth contributed to this. In order to try to help protect its export markets, Japan moved to sell yen to weaken its currency last week. This was for the third time in 2011, as the US dollar strengthened to yet another post-war record.

## Bonds

European bond markets added to their 2011 gains amid slowing growth in the region and the uncertainty surrounding the Greek debt crisis, which is also putting pressure on the spreads of other indebted countries, including Portugal and Italy. Italian yields hit record highs after its Prime Minister, Silvio Berlusconi, rejected financial aid from the IMF. The Merrill Lynch over 5 year government bond index ended the week 0.4% higher.

## Global Outlook

- Indicators of economic activity suggest that global growth rates have peaked for now although some of the recent data have been better than expected. Investors are concerned that we might see more than just a mid-cycle pause and worry that we will see another recession in Europe. Inflation has been more of a regional or country-specific concern for investors, particularly in some Asian countries, but there have been some shared global concerns, such as energy and food prices; however, some of these should dissipate if growth moderates further. No major countries are actively seeking currency strength - the opposite is the case, if anything - a key indicator that policymakers are not overly concerned about inflation.
- Short-term interest rates remain at emergency levels in the US and the Fed has recently committed to these levels for another two years. The ECB cut its main refinancing rate by 0.25% to 1.25%, last week validating the view that this year's hikes were premature - and more easing should be expected globally in the midst of the growth slowdown and financial market stresses.
- Most of the peripheral bond markets in the eurozone remain quite stressed. The situation is very fluid, with the prospect of a Greek default being a major concern. The recently published "grand plan" remains subject to lots of execution risk and is likely to fall short of investors' expectations. Meanwhile, the political situation in Greece remains volatile following last week's referendum announcement and subsequent retraction, and has raised the chances of a more disorderly outcome there. This continues to be an extremely difficult situation, given the positions adopted by key players such as the ECB and some eurozone governments. German and US bond yields continue to be extremely low despite the recent rally in risk assets, but the background suggests that long-term interest rates are likely to stay very low for a further considerable period of time.
- In what has been a volatile year, global equities are down around 7% in euro terms. Valuations are reasonable but investors have been questioning the path of future corporate profits, given renewed economic growth worries. Worries over bank funding costs and banks' exposures to peripheral government debt also loom large. Investors are also incorporating risks with regard to fiscal sustainability, default in the eurozone and even the future of the euro itself. Those worries had eased in advance of the "grand plan" but concerns that policymakers have lost control over the situation could easily return. The recent recovery in equities may have been fuelled as much by excessive negative sentiment and positioning as anything more fundamental. The situation remains difficult and volatility is quite likely to return.
- Currently, the funds are underweight equities and neutral bonds versus the manager average. Within equity sectors the funds remain underweight financials and industrials and overweight technology. Geographically, the funds are underweight in Ireland, the UK, Japan and Europe and are neutral in the Pacific region and North America.

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.