

Global Overview

Equity markets end week marginally higher

Rising energy costs, mixed economic data and the continuing uncertainty over the eurozone debt crisis weighed on investor sentiment at times last week. However, the ECB's injection of a further €530 billion into the market through its second three year longer-term refinancing operation (LTRO) was a notable boost, and most equity markets ended the week in positive territory.

US economic data

The US economy's fourth-quarter growth rate came in better-than-expected at an annualized rate of 3%. The number of Americans filing first-time claims for jobless benefits fell to a four-year low. The ISM manufacturing index disappointed in February amid concern over heightened commodity prices.

German retail sales

German retail sales figures fell unexpectedly in January by 1.6%, as rising energy costs stifled consumer spending in Europe's largest economy.

Currencies

The euro lost ground against the dollar, with mixed data releases and doubts over any further Federal Reserve stimulus action boosting currencies with safe haven status. This resulted in the €/ \$ rate ending the week at 1.32, 2% lower.

Oil & gold

In commodity markets, in the earlier part of the week, oil rallied to its highest level since mid-2008 following reports that a pipe-line in Saudi Arabia had been damaged. However, as the week progressed the price retreated, to end 3% lower, at \$107 a barrel. Elsewhere, gold declined almost 4% over the week, after the Federal Reserve Chairman Ben Bernanke lowered expectations for any fresh round of quantitative easing in the near-term.

	Index	Year to Date Return 31.12.11 to 02.03.12		1 Week Return 24.02.12 to 02.03.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	10.1	9.2	0.5	2.1
US	S&P 500	8.9	6.8	0.3	2.2
US	NASDAQ	14.2	12.1	0.4	2.3
Europe	FT/S&P Europe Ex. U.K.	10.7	10.7	0.7	0.7
Ireland	ISEQ	12.5	12.5	2.0	2.0
UK	FTSE 100	6.1	6.4	-0.4	1.4
Japan	Topix	15.0	6.4	0.4	1.4
Hong Kong	Hang Seng	17.0	14.9	0.7	2.6
Australia	S&P/ASX 200	5.3	8.3	-0.8	1.5
Bonds	Merrill Lynch Euro over 5 year Govt.	5.7	5.7	1.7	1.7

Global Equities



United States

Overview

All three main US indices reached important milestones last week, with the Dow Jones closing above 13,000 for the first time since 2008, the Nasdaq Composite hitting an-eleven year high, temporarily hitting the 3,000 mark while the S&P 500 traded above its post-financial crisis high. Despite this, economic news proved disappointing and US equities ended the week with only small gains.

Apple & Co – The technology company was one of the top performers last week gaining 4%, (up 35% year-to-date) taking its market capitalisation over the \$500 billion barrier mark.

CostCo – The wholesaler's second-quarter profit figure came in better-than-expected rising 13%, after cheaper gasoline and bulk purchases at its stores, helped attract budget-conscious shoppers both in the US and overseas.



Europe

Overview

European equity markets ended the week almost 1% higher, boosted by the European Central Bank's liquidity injection into the market. On a further positive, the number of banks taking up funds in offering increased from 523 to 800, reflecting the ECB's relaxation in collateral rules.

Standard Chartered Bank – The bank reported that net income rose to \$4.85 billion from \$4.33 billion a year earlier, after posting its eighth annual record earnings due to growth in corporate and consumer banking.



Ireland

Overview

The Irish market was one of the better performers, ending the week 2% higher.

Paddy Power – The bookmakers reported underlying pre-tax profits rose 16% to €121.2 million for the year to the end of December, with most of its increased revenue coming from on-line activities.



Asia Pacific

Overview

Asian equity markets ended the week in line with global equities with Japan's Topix index up 0.4%, but still below the 850 mark while Hong Kong's Hang Seng index gained almost 1%. Latest numbers show that China's services sector grew at its fastest pace in four months in February, although well below its long-term trend. Elsewhere, China's official purchasing manufacturing index showed a pick-up in pace last month, powered by exports.

India – India's economy grew at the slowest pace in more than two years last quarter as domestic demand weakened, adding pressure on the central bank to lower interest rates.

Bonds

In a week of weaker-than-expected economic data releases, eurozone bonds made large gains during the week due to their relative safe-haven status. The Merrill Lynch over 5 year government bond index ended the week 1.7% higher. In particular, eurozone peripheral bond markets performed well, boosted by strong demand of funds at the ECB's latest LTRO offering. Spanish and Italian bonds were particularly strong with the latter's two-year yield spread trading below 2% for the first time since 2010.

Global Outlook

- So far this year "risk-on" trades have been supported by some better US economic data and by optimism surrounding liquidity provisions by the ECB and have, therefore put less stress on a recession in Europe or risks to growth elsewhere. While a resurgence in commodity prices could add to upside inflation risks, it is otherwise likely that inflation pressures should remain reasonably modest. Currency strength is seen by most countries as something to be resisted – in some cases, actively so – and this is normally a sign that inflationary pressures remain modest.
- Short-term interest rates remain at emergency levels in the US and the Fed has now stated its intention to keep these levels until late 2014. Elsewhere, central banks are either neutral in their stance or have embarked on more easing measures. The ECB will likely enact another rate reduction at some stage this year - although not as soon as had been thought – but, nonetheless, low rates will also be maintained by it for some time to come.
- Some of the peripheral bond spreads remain at stressed levels, although performance has been strong of late in a number of markets. For instance, Spanish bonds have tightened over 1.5% from their wides to just over 3.1%, while Portuguese bond spreads are almost at a worrying 11.5% level. Irish spreads have behaved well of late, also against an extremely positive consensus regarding Ireland among bond investors, one that is somewhat concerning from a contrarian perspective. Investors – rightly or wrongly – have become tired of the twists and turns of the Greek situation. The consensus is that almost any outcome in Greece can be "contained" without knock-on implications for the rest of the eurozone. That may be optimistic, however. The general global backdrop is still disinflationary for now and this suggests that long term interest rates in US, Japan, UK and Germany are likely to stay very low for a further considerable period of time.
- Global equities in euro terms have risen by 9% so far this year, which is an extremely strong start. As with last year, valuations are reasonable but investors are looking for signals or reassurance regarding the future earnings' picture. While most equity investors continue to expect a benign resolution of the eurozone crisis, but that may not occur without considerably more ups and downs. The markets' surge so far this year has been driven by better macroeconomic sentiment rather than earnings - and this normally portends a good year. However, given the general backdrop we expect volatility to arise during the year and for that reason we are cautious at these levels.
- The funds remain underweight equities and slightly overweight bonds versus the manager average. Within equity sectors, the funds remain underweight financials, basic materials and consumer stocks and overweight technology. Geographically, the funds are underweight in Ireland, Japan, the UK and Europe, neutral in the Pacific region and slightly overweight in the US.

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

Zurich Life Assurance plc is regulated by the Central Bank of Ireland.

Intended for distribution within the Republic of Ireland.