

Global Overview

Equity markets gain

Equity markets returned to winning ways last week after various pieces of economic data and a statement from the Federal Reserve on its improving assessment of growth in the US gave investors an upbeat view of future economic growth.

US economic data

Consumer sentiment unexpectedly dropped in March as the sharp rise in gasoline prices so far in 2012 hurt household budgets. Meanwhile, latest claims figures for unemployment benefits declined to match a four-year low, while the unemployment rate remained at a three-year low of 8.3%. There was also good news with retail sales rising in February by the most in five months. Investors' inflation expectations are rising as a result of these.

UK unemployment

Data released last week showed UK jobless claims rose more than forecasted in February and a broader measure of unemployment remained at the highest level in 16 years.

Indian budget deficit

It was announced that the Indian budget deficit this year is projected to exceed 5% for a second successive year. This is expected to limit the scope for a series of interest rate cuts to bolster a slowing economy.

Currencies

The dollar weakened against most major currencies after lower-than-expected US inflation data fuelled speculation that the Federal Reserve will maintain economic stimulus. This resulted in the €/£ rate ending the week just below 1.32.

Oil

Oil prices rose late in the week on the back of the upbeat US economic data, which pointed to increased fuel demand in the world's biggest economy. Overall, though, crude oil ended the week unchanged at \$107 a barrel.

	Index	Year to Date Return 31.12.11 to 16.03.12		1 Week Return 09.03.12 to 16.03.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	12.2	11.1	2.1	1.7
US	S&P 500	11.7	9.9	2.4	2.0
US	NASDAQ	17.3	15.4	2.2	1.8
Europe	FT/S&P Europe Ex. U.K.	13.1	13.1	2.9	2.9
Ireland	ISEQ	15.8	15.8	2.8	2.8
UK	FTSE 100	7.1	7.5	1.3	1.9
Japan	Topix	19.0	8.2	2.1	0.7
Hong Kong	Hang Seng	15.6	13.9	1.1	0.6
Australia	S&P/ASX 200	5.4	7.1	1.5	1.2
Bonds	Merrill Lynch Euro over 5 year Govt.	4.4	4.4	-1.2	-1.2

Global Equities



United States

Overview

The S&P 500 Index continued its strong start to 2012 and rose for the fifth successive week. Upbeat data, positive stress test results for US banks and the economic outlook from the Fed were among the main drivers of the rise.

Financials – The sector rallied after most banks passed the Fed's stress tests. The Fed added that 15 of the 19 largest banks would maintain adequate capital levels in a severe recession, even if they kept paying dividends and buying back stock. This helped financials rally over the week, with JP Morgan and Bank of America rising over 8% and 22% respectively.



Europe

Overview

European equity markets gained strongly following good economic data in the region and the US, along with the Fed raising its assessment of the US economy.

Banks – Banking stocks tracked their US counterparts with strong gains last week. Credit Suisse, the second-largest Swiss bank, rose 11%, while Deutsche Bank rose 10%.



Ireland

Overview

It was a good week for the Irish market also. It finished the week 2.8% higher, to reach its highest point in a year.

Providence Resources – Shares in the company rose over 30% last week after the oil and gas explorer announced, on Thursday, that it had struck oil at a field off the Cork coast.



Asia Pacific

Overview

Asian equity markets rose in line with the rest of the world. Export-related stocks were the best performers on the back of the upbeat view of the US economy. A slightly weaker yen also boosted gains for exporters.

Bonds

German bund prices fell last week, leading to the biggest weekly rise in yields since last November, after the Fed raised its assessment of the US economy. Elsewhere, Italian and Spanish borrowing costs fell following successful bond auctions. The Merrill Lynch over 5 year government bond index ended the week 1.2% lower.

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. Investors have put less stress on any risks to growth in Europe or elsewhere. While oil prices or a resurgence in other commodity prices could add to upside inflation risks, it's otherwise likely that inflation pressures should remain reasonably modest. Currency strength continues 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 markets now think that another ECB rate reduction is not likely 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 widest to around 3.2%, while Portuguese bond spreads remain at a worrying 11.5% level. Irish spreads have behaved well, although the extremely positive consensus regarding Ireland among bond investors is somewhat concerning from a contrarian perspective. The consensus is that the outcome in Greece has little, if any, knock-on implications for the rest of the eurozone but that may be overly optimistic. The general global backdrop is still disinflationary for now and this suggests that long-term interest rates in the US, Japan, UK and Germany are likely to stay very low for a further considerable period of time, although that view is being challenged, especially by the recent rise in US yields.
- Global equities in euro terms have risen by 11% 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. The markets' surge so far this year has been driven by better macroeconomic sentiment rather than earnings (earnings' estimates had been falling but this has now stopped) and this normally portends a good year. While we had been cautious since the start of the year and still expect volatility to return, for now we have taken a more neutral stance and moved to the sidelines for the next move.
- The funds are now more neutral in both equities and bonds versus the manager average. Within equity sectors the funds are pretty balanced at the moment, although they continue to be overweight technology and slightly underweight basic material stocks. Geographically, the funds are underweight in Ireland and the UK, neutral in the Pacific region and Europe and slightly overweight 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.