

## Global Overview

### Market turmoil continues

Equity markets fell for another week as Greece's participation in the single-currency union was questioned and economic data failed to boost sentiment.

### Greece

Doubts surrounding Greece's participation in the single currency rose after its recent elections failed to produce a clear winner. Another election has now been set for 17<sup>th</sup> June. At the G8 meeting, leaders of the eight nations pushed for Greece to stay in the euro area.

### Spanish banking downgrades

Moody's cut its credit rating of 16 Spanish banks last week. This followed fears that banking losses will widen amid an increase in bad loans and restricted funding access. Spanish bond yields rose as a result.

### US economic data

Data released over the week failed to give the market a boost. Jobless claims, retail sales and the consumer price index were broadly in line with expectations, although industrial production showed better-than-expected growth.

### Currencies

The euro fell for the third-successive week, leaving it at a four-month low versus the US dollar. The main influencing factor was the risk of the debt crisis spreading further amongst the eurozone's member nations as a result of the knock-on effects from Greece's failure to form a government. The €/ \$ rate ended the week at 1.27, 1.6% lower over the week.

### Oil & gold

The oil price dropped to a six-month low on the concerns surrounding Greece, which may hurt Europe's debt troubles further and curb fuel demand. The West Texas oil price ended just above \$91 a barrel, 4.8% lower on the week. Gold finished the week unchanged overall.

	Index	Year to Date Return 31.12.11 to 18.05.12		1 Week Return 11.05.12 to 18.05.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	1.6	3.0	-4.5	-3.6
US	S&P 500	3.0	4.8	-4.3	-2.7
US	NASDAQ	6.7	8.6	-5.3	-3.7
Europe	FT/S&P Europe Ex. U.K.	-3.1	-3.1	-5.0	-5.0
Ireland	ISEQ	3.9	3.9	-4.5	-4.5
UK	FTSE 100	-5.5	-2.0	-5.5	-5.7
Japan	Topix	-0.4	-1.4	-4.3	-1.9
Hong Kong	Hang Seng	2.8	4.7	-5.1	-3.5
Australia	S&P/ASX 200	-0.2	-2.6	-5.6	-6.2
Bonds	Merrill Lynch Euro over 5 year Govt.	5.4	5.4	-0.4	-0.4

## Global Equities



### United States

#### Overview

The S&P 500 Index fell for another week, pushing the S&P 500 Index to its longest losing streak since August. Economic data failed to give markets a boost, while growing concerns that Greece may leave the euro weighed heavily on them also. All ten sectors in the index lost ground over the week.

**Retail sector** – JC Penney and Abercrombie & Fitch both fell 23% after reporting sales that missed analysts' estimates.

**Facebook** – The long-awaited IPO took place on Friday, with the company raising €16bn in the largest IPO on record for a technology company. Its shares finished the day marginally higher.



## Europe

### Overview

With all the attention on Europe, shares in the region slumped throughout the week. Data for the economy showed that the region failed to grow in the first quarter of the year.

**Banking sector** – Banks fell heavily over the week, with deteriorating data and bad debts in Spain and increasing concern about Greece remaining in the euro area were the main factors. Italy's UniCredit and the Spanish lender Bankia both fell almost 15% on the week.



## Ireland

### Overview

The Irish market followed the rest of the world lower, finishing the week 4.5% down overall.

**C&C Group** – The group reported results in-line with expectations, with core markets of UK and Ireland being solid, but there was better growth from international markets.



## Asia Pacific

### Overview

Asian markets posted their worst week in almost eight months amid the events in the eurozone and weak US data. Elsewhere, Chinese home prices fell but the government pledged to keep restrictions on property purchases in place. Stocks reliant on the eurozone consumer market fell heavily, with Samsung Electronics, which gets 35% of its sales from Europe and the US, ending the week 11% lower. However, the stock, like a number of other Korean equities, is on an attractive valuation of eight times earnings, which has been rising on strong smartphone sales.

## Bonds

German bunds rose for a fifth consecutive week, pushing the 10-year yield to another record low, as fear that Greece would withdraw from the single currency boosted demand for the region's safest asset. While core countries benefited from this, peripheral countries, most notably Spain, saw prices fall over concerns about rising banking losses. The Merrill Lynch over 5 year government bond index ended the week 0.4% lower.

## Global Outlook

- ECB liquidity provisions had removed the excessive pessimism surrounding the eurozone growth outlook, but some concerns are emerging once again. Other regions, such as the US and Asia, are broadly in line with investors' generally positive growth expectations, albeit that risks generally remain on the downside. Unless we get an unexpected surge in commodity prices, via oil prices for instance, price pressures should remain contained. Currency strength continues to be resisted by most countries – in some cases, actively so – and this is a sign that central banks' inflation concerns remain modest.
- Short-term interest rates remain at emergency levels in the US with the Fed intending to keep these levels until late 2014. Elsewhere, most central banks are either neutral in their stance or have embarked on more easing measures. The ECB is officially on hold at the moment but another rate reduction is still quite possible before this cycle ends, especially since eurozone growth concerns have resurfaced.
- Some stress has returned to peripheral bond markets, following a period of outperformance versus German bonds, fuelled by political developments and the 'growth versus austerity' debate. Spanish bonds are close to their previous weakest levels vis-à-vis German bonds as investors worry again about the volume of bad debts in the banking system and the feasibility of its deficit targets. Political developments have put the spotlight back on Greece and, to a certain extent, even on France. Irish bonds, in contrast, are dominated by a somewhat disconcertingly positive consensus amongst bond investors and commentators alike, but have underperformed a bit recently also. The global backdrop - low short rates, central bank buying and disinflation concerns - suggests that long-term interest rates in major developed countries are likely to stay very low for a further considerable period of time.
- Global equities surged at the start of year but have been weaker in the past couple of months, giving an overall return for the period of 6.8%. Valuations are reasonable but it's been investors' perceptions of the macroeconomic backdrop that moved sentiment in positive and negative directions. Caution has been the watchword more recently, influenced by more even-handed economic data - rather than the earlier positive data bias - and the return of nervousness regarding the sovereign/bank nexus in the eurozone. Thus, while US and other earnings' data has been positive, negative eurozone developments have offset this. We had expected volatility to return at some stage and we think that the recent patch of even-handed or weaker price action can continue for a little longer. Thus, for now, we will stick with a neutral to slight underweight stance on equities.
- Zurich Life funds remain underweight equities and slightly overweight bonds versus the manager average. Within equity sectors, we remain underweight basic materials and consumer stocks and overweight technology. Geographically, the funds are underweight in Ireland, Europe, Japan and the US (from overweight) and are neutral in the UK and 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.

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