

Global Overview

Bad week for equities

Weak data, including manufacturing and jobs, along with the on-going eurozone crisis caused markets to fall heavily last week.

Eurozone jobless rate hits record

Unemployment in the region hit its highest level on record in April as a result of companies in Spain and Italy cutting jobs. The jobless rate now stands at 11%.

US manufacturing and job creation slows

Figures released by the Institute for Supply Management showed that manufacturing output was weaker-than-expected, having hit a 10-month high last month. Further to this, the jobless rate rose to 8.2%, from 8.1%, after payrolls only climbed by 69,000 in May, which was also weaker-than-expected.

Greece's credit rating cap

Greece had its highest possible credit rating lowered by Moody's Investors Services. This is as a result of mounting concern that the country will elect a government that refuses to cut spending and raise taxes, which may result in it leaving the euro.

Further stimulus from Bank of England?

Manufacturing in the UK shrank at the fastest pace in three years last month. Many analysts are speculating that this may prompt the BoE to resume stimulus measures as soon as next week.

Currencies

The continuing flight to safety saw the euro remain at its lowest level against the dollar for nearly two years. The €/£ rate finished the week slightly below the €1.28 level. Elsewhere, demand for safety pushed the yen to an 11-year high against the euro.

Oil & gold

Oil prices slumped to the lowest in almost eight months following weak data which may signal a drop in demand for the commodity. The West Texas oil price ended the week at \$84 a barrel, down over 7% on the week. Gold gained during the week, finished almost 3% higher.

	Index	Year to Date Return 31.12.11 to 04.06.12		1 Week Return 25.05.12 to 04.06.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	0.1	2.6	-2.8	-2.8
US	S&P 500	1.6	5.6	-3.0	-2.7
US	NASDAQ	5.9	10.1	-2.7	-2.4
Europe	FT/S&P Europe Ex. U.K.	-5.8	-5.8	-3.7	-3.7
Ireland	ISEQ	3.9	3.9	-2.5	-2.5
UK	FTSE 100	-5.6	-2.8	-1.7	-3.2
Japan	Topix	-4.5	-2.6	-3.7	-1.8
Hong Kong	Hang Seng	-1.3	2.6	-2.8	-2.5
Australia	S&P/ASX 200	-1.8	-3.4	-1.1	-1.5
Bonds	Merrill Lynch Euro over 5 year Govt.	8.3	8.3	1.3	1.3

Global Equities



United States

Overview

The S&P 500 Index fell for its fourth week in five, erasing most of its 2012 gain, amid concern that the global economy is slowing and the eurozone's on-going debt crisis is worsening. The index slumped 2.5% on Friday following the weak jobs data.

Facebook – The social media giant saw its shares fall for another week on fears it will struggle to squeeze profit from its 900 million users. Its shares finished the week 13% lower.



Europe

Overview

European markets finished the week lower as record unemployment, along with weak manufacturing data in the US and China, weighed on the troubled region.

Bankia – Shares in the Spanish lender, which was part-nationalised last month, sank 35% after it sought €19 billion of State aid.



Ireland

Overview

The Irish market followed the rest of the world lower, finishing the week 2.5% down.

Irish Continental Group – At its AGM, the group whose passenger ships operate under Irish Ferries, announced profit fell over 8% as a result of rising fuel costs. It also announced the number of British holidaymakers planning to visit Ireland this summer "looks positive" based on the current level of advance bookings.



Asia Pacific

Overview

The Topix Index in Japan fell for a ninth week in a row, which is longer than the losing streaks experienced during the technology crash of 2001 and the start of the Japanese banking crisis in 1995. A measure of factory production in China slipped from 53.3 in April to 50.4 in May. This reading was slightly lower than expected and pointed to weak growth, as a figure below 50 indicates a contraction. Measures for India, South Korea and Taiwan also dropped in May.

Bonds

Yields in core countries fell to new record lows as the eurozone's deepening crisis, along with slowing global data, boosted the appeal of the region's safest assets. The 10-year borrowing costs of Germany, Austria, France and the Netherlands dropped to record levels. Yields on the Germany two-year bund fell below zero for the first time when they hit minus 0.012%. Overall, the Merrill Lynch over 5 year government bond index ended the week 1.3% higher.

Global Outlook

- Stress is once more present in the eurozone. This plus some disappointing data in other regions, such as the US and China, has added risks to investors' otherwise more positive growth expectations. Investors' questioning of the trajectory and even the existence of the euro adds further uncertainty and adds to growth risks everywhere. 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.
- Stress has returned to peripheral bond markets, fuelled by political developments and the 'growth versus austerity' debate. Spanish bonds are now above their previous weakest levels vis-à-vis German bonds as investors worry about the 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 which are dominated by a disconcertingly positive consensus amongst bond investors and commentators alike have also underperformed recently. The global backdrop - low short rates, central bank buying and disinflation concerns - suggests that long-term interest rates in major developed countries could stay at exceptionally low levels for a considerable period of time.
- Global equities in euro terms have now fallen 8% from the March peak giving year to date returns now of just above 2.5%. Valuations are reasonable – as they have been for some time now - but it's been investors' perception of the macroeconomic backdrop that moved sentiment in positive and negative directions this year. Thus recently the return of nervousness regarding the sovereign/bank nexus in the eurozone has caused investors to become cautious; good profits' data in many areas has not been sufficient to counter these concerns. We are not yet convinced that we are yet finished with this current weak phase but will be looking for signals – such as policy reaction – which could reverse today's negative bias; so far all we have seen is talk and division amongst policymakers. Thus for now, we will stick with a neutral to slight underweight stance on equities.
- Zurich Life funds remain underweight equities and overweight bonds versus the manager average. Within equity sectors, we remain underweight basic materials, industrials and consumer stocks and overweight technology. Geographically, the funds are underweight in Ireland, Europe, Japan and the US (from a previous overweight position), 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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