Zurich Life
Weekly Investment News

18th July 2011

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Global Overview

Equities fall
Despite the release of some upbeat quarterly earnings' reports, robust Chinese growth data and fresh talks of further quantitative easing (QE) in the US, concerns about the ever-growing sovereign debt problem and the results of the European bank "stress tests" increased volatility, causing equity markets to record losses for the week.

US AAA credit-rating
The two main credit-rating agencies, Standard & Poor's and Moody's warned that the US could lose its AAA credit-rating, if politicians are unable to raise the country's debt ceiling.

US data
Confidence among US consumers fell in July, to the lowest level in more than two years, adding to concern that weak employment gains may keep households from spending.

Bank stress tests
The latest banking stress tests revealed that eight of the ninety banks tested failed and will require total capital injection of €2.5 billion.

China
China's economy grew by 9.5% in Q2 2011. Although, this was a slower pace than the 9.7% rate recorded in Q1, the result was still better-than-expected.

Currencies
The euro weakened to a four-month low against the dollar, falling below the key 1.40 level at one point, as wrangling among European policy-makers increased fears of eurozone debt contagion. The €/$ rate ended the week just below 1.41, a weakening of 1% over the week.

Oil & gold
In commodities, the oil price (West Texas) traded within a range, rising 1%, to end the week at $97 a barrel. Elsewhere, gold ended the week 3% higher at $1,589 per troy ounce, as investors rushed to the safe-haven status of the precious metal.

	Index	Year to Date Return 31.12.10 to 15.07.11		1 Week Return 08.07.11 to 15.07.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	1.4	-1.4	-2.3	-1.4
US	S&P 500	4.7	-1.1	-2.1	-1.3
US	NASDAQ	5.2	-0.7	-2.4	-1.7
Europe	FT/S&P Europe Ex. U.K.	-3.3	-3.3	-3.1	-3.1
Ireland	ISEQ	-0.8	-0.8	-2.8	-2.8
UK	FTSE 100	-1.0	-3.1	-2.5	-1.0
Japan	Topix	-4.4	-7.2	-1.7	1.1
Hong Kong	Hang Seng	-5.0	-10.5	-3.7	-3.1
Australia	S&P/ASX 200	-5.7	-7.3	-3.9	-4.0
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.8	-0.8	-0.8	-0.8

Global Equities

United States

Overview
The S&P 500 Index ended the week over 2% lower, as concerns over the US economic outlook and ongoing discussions regarding the federal debt ceiling overshadowed some encouraging quarterly earnings results.

Earnings – Alcoa kicked off the earnings' season with a jump in earnings and revenue in part due to a rise in aluminium prices. However, analysts have cautioned for the next quarter. Google rose 12% on the week, after it released a strong earnings report that exceeded most bullish estimates.

Europe

Overview

European markets had another poor week due to escalating concerns over the eurozone debt crisis and nervousness about the results of European bank "stress tests".

Philips – The consumer electronics maker posted an unexpected €1.3 billion quarterly net loss caused by weak consumer demand in Europe and the US.

Ireland

Overview

The ISEQ followed the rest of the world lower and was one of the weakest performers on the week. In other news, credit-rating agency Moody's cut Ireland's sovereign debt-rating by one notch from Baa3 to Ba1 (junk status).

Kerry Foods – Food Group Kerry has announced that it is in exclusive talks about purchasing US group Cargill's global flavours business.

Asia Pacific

Overview

Despite data showing that China had grown by 9.5% in the second quarter from a year earlier, the eurozone debt crisis dominated Asian markets last week. As a result, the Hong Kong's Hang Seng index shed almost 4%, while Japan's Topix fell almost 2%. In corporate news, mining giant BHP Billiton unveiled a $12.1 billion takeover bid of US firm Petrohawk Energy Corporation, in a deal that would give the former access to large shale assets in Texas and Louisiana.

Bonds

Bonds markets fell last week with investors fearing contagion from Greece's fiscal crisis to the region's "core "countries. Across peripheral markets, the cost of insuring against a default widened out even further. Italian bonds remained under pressure throughout the week with the yield on 10-year bonds trading almost at 6% before easing back, as debt auctions attracted reasonable demand. The Merrill Lynch over 5 year government bond index ended the week 0.8% lower.

Global Outlook

- Forward indicators of economic activity suggest that global growth rates have probably peaked for now. The key for investors is whether this is a mid-cycle pause or something more significant and that is being hotly debated at the moment. Inflation remains more of a regional or country-specific concern for investors - particularly in some Asian countries - but there are some shared global concerns, such as energy and food prices. So far, there are no major countries actively seeking currency strength, and this is a significant indicator that central banks are not yet particularly concerned about inflation.
- Official interest rates remain at emergency levels in the US and investors expect this situation to persist for another 12 months or so. Rates are very low in eurozone despite recent increases and future rate expectations remain very contained with only a 50% chance of another 0.25% increase before year end. The difficult balancing act facing the ECB, if anything, is getting more problematic, with the peripheral economic position a considerable complication to its decision-making. Partly because of this risk, it is plausible that this new hiking cycle will be quite a short one.
- The recent fall in German and US long-term interest rates may extend further amid worries over a global growth slowdown and the euro debt crisis. Substantial concerns are beginning to emerge over Spanish and, now, Italian debt positions. While these worries are a new feature of the crisis they have their origin in the same basic issue. The latest announcement, in a long series, regarding Greece, has had little positive impact with events overtaking the Greek situation. Yet another emergency summit is slated for this week but talk of "debt restructuring" in Greece, Portugal and Ireland remains centre-stage.
- In a volatile 2011, global equities are down by around 1.5% in euro terms. That said, equity markets have performed reasonably well in the context of surging oil prices, political turmoil in the Middle East, the Japanese disaster and the euro debt crisis. There is still a general market expectation for gains during the year on the basis of reasonable valuations and earnings' growth. The current earnings' season in the US will be closely watched by investors as much for the guidance from companies for the period ahead as for the recent quarters' profits data. We remain concerned that further slow-down concerns have yet to be discounted by investors but are now tactically neutral equities.
- Currently, the funds are close to neutral in equities and bonds on a tactical basis, versus the manager average. Within equity sectors, the funds are underweight financials and overweight technology. Geographically, the funds are underweight in Ireland and the UK, neutral in the US, Europe and Japan and overweight the Pacific Basin region.

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