Zurich Life
Weekly Investment News

ZURICH

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Global Overview

Equity markets continue upward trend

Equity markets rose for another week as economic data and successful bond auctions gave sentiment a boost. However, the move by Standard & Poor's Rating Agency to cut a number of eurozone credit-ratings soured the mood towards the end of the week.

Ratings cut

Standard & Poor's cut the ratings of a number of eurozone countries late in the week, with France and Austria being the most notable. Both saw their ratings cut by one notch, to AA+, with negative outlooks. Italy, Portugal and Spain were also downgraded, but the company reaffirmed the ratings of Germany, Belgium and the Netherlands.

US data

Consumer confidence in the US increased more-than-expected in January's reading. An improving labour market and cheaper petrol prices contributed to this.

European Central Bank

The ECB left rates unchanged at 1% when it met last week. Its President, Mario Draghi, said he saw signs of stabilisation in the economy.

Currencies

In currency markets, for the sixth successive week, the euro weakened against the dollar. This latest fall was as a result of the cutting of the credit rating of some of the region's strongest countries. The €/$ rate finished the week just below 1.27.

Oil

Along with the ratings cuts for some of Europe's biggest economies, the West Texas oil price fell after some European Union officials said an embargo on Iranian crude imports may be postponed for six months. Oil finished the week just below $99 a barrel.

	Index	Year to Date Return 31.12.11 to 13.01.12		1 Week Return 06.01.12 to 13.01.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	2.2	4.3	1.0	1.4
US	S&P 500	2.5	4.8	0.9	1.2
US	NASDAQ	4.1	6.4	1.4	1.7
Europe	FT/S&P Europe Ex. U.K.	1.7	1.7	1.2	1.2
Ireland	ISEQ	1.0	1.0	1.4	1.4
UK	FTSE 100	1.2	2.0	-0.2	-0.7
Japan	Topix	0.8	3.2	0.7	1.3
Hong Kong	Hang Seng	4.2	6.5	3.3	3.6
Australia	S&P/ASX 200	3.4	6.1	2.1	3.1
Bonds	Merrill Lynch Euro over 5 year Govt.	0.4	0.4	2.1	2.1

Global Equities

United States

Overview

US stocks rose in what was another positive week for equities. Upbeat earnings and economic data outweighed concern about credit-rating cuts in the eurozone.

Alcoa – The biggest US aluminium company saw its shares rise 7% over the week. This was as a result of strong fourth-quarter sales.

Europe

Overview

European stocks rose after successful bond auctions gave the market a boost. However, gains were pared on Friday as a result of the sovereign ratings cuts and no progress being made on Greek debt restructuring negotiations.

Tesco – Shares in the company slid 19% as the UK's biggest supermarket chain cancelled its forecast of 10% earnings growth in the 2013 financial year. This was as a result of it missing its Christmas sales estimates.

Ireland

Overview

The ISEQ followed the rest of the world in moving higher during the week.

Grafton Group – The company gave a trading update in which it said that profits for 2011 will be at the higher end of a €52 million to €55 million range than its previously downgraded forecast. Its shares rose 10% during the week.

Asia Pacific

Overview

Asian stocks rose for the fourth successive week, as Italian and Spanish bonds yields fell and signs of further recovery in the US economy spurred optimism that global demand will weather the eurozone's debt crisis. China also gave markets a boost after the nation's economic planning agency said it will take measures to stabilise its exports and imports as slowing global growth creates a 'grim situation'.

Bonds

German bonds rose early in the week on speculation that the Standard & Poor's may lower the credit-ratings of some of the regions countries. This duly happened and justified investors increased demand for the safest assets. Spanish and Italian bonds also rose after both conducted successful bond auctions. The Merrill Lynch over 5 year government bond index ended the week 2% higher.

Global Outlook

- Economic growth globally has peaked for now and we have seen a wave of lower 2012 growth forecasts in recent weeks. Even though some of the more recent data in the US have been ok, investors are focusing on another looming recession in Europe and downside risks to growth elsewhere. While resurgence in commodity prices could add to upside inflation risks this year, it is otherwise likely that inflation pressures should remain modest. As before, no major countries are seeking currency strength – the opposite remains the case, if anything – and this is a key indicator that policymakers are not concerned about inflation.
- Short-term interest rates remain at emergency levels in the US and the Fed has affirmed its promise to keep these levels until well into 2013. Indeed, globally central banks are either neutral in their stance or have embarked on more easing measures. The ECB will likely follow up its recent rate reduction with another cut in or before March 2012 and low rates will be maintained by it also for some time.
- Peripheral and some of the other eurozone bond markets remain stressed and the most recent EU summit was insufficient to assuage the concerns of bond investors. The Austrian Finance Minister put it succinctly when he said that "the decisions don't have enough firepower to have a sustainable effect". Volatility is likely to remain and an ultimately benign outcome is far from a given. 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.
- So far this year, global equities have risen by about 3% in euro terms. Valuations may be reasonable but investors are downgrading future corporate profits, given renewed economic growth worries and a risk premium for further eurozone debt risks. Markets are likely to remain volatile in this environment. Most equity investors are expecting a benign resolution of the eurozone crisis that would set the stage for a strong rally but that may remain elusive. In the immediate term, it is more likely that markets give up recent gains than rally hard from here.
- The funds are underweight equities and overweight bonds versus the manager average. Within equity sectors the funds remain underweight financials and industrials 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.

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