Zurich Life
Weekly Investment News

29th August 2011

Global Overview

Markets snap losing streak
Equity markets rose last week on the back of rising risk appetite ahead of the Fed's meeting, some upbeat economic data, including durable goods orders, and reasonable valuations.

Federal Reserve
At its latest meeting, the Fed left rates unchanged and said that the economy has not deteriorated enough to need immediate stimulus. However, its Chairman, Ben Bernanke, announced that it still has tools to stimulate the economy should they be needed. It has also extended its next meeting by one day to "allow a fuller discussion" on the economy.

Irish bonds
The price of Irish two-year bonds rose to its highest level since March 3rd and its yield finished the week at 7.8%. The 10-year price also continued to rise, leaving the yield just below 9%.

Japan
Moody's Investor Service lowered Japan's sovereign-credit rating last week. It cited "weak" prospects for cutting the country's debt burden as the reason behind the downgrade.

Currencies
The dollar weakened against a majority of its major trading partners over the week. This was mainly attributed to increased risk appetite, following some improved economic data, and the comments from the Fed. The €/$ rate ended the week at 1.45, a gain of 0.5%.

Oil & gold
The oil price (West Texas) rebounded last week after some upbeat data and the comments from the Fed regarding adding further stimulus, should the economy need it. The oil price finished the week at $85 a barrel, a rise of 4%. Gold experienced its biggest three-day drop in almost three years, ending the week at $1,786, a fall of 3.5%.

	Index	Year to Date Return 31.12.10 to 26.08.11		1 Week Return 19.08.11 to 26.08.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-10.4	-14.2	3.0	3.0
US	S&P 500	-6.4	-13.6	4.7	4.2
US	NASDAQ	-6.5	-13.7	5.9	5.3
Europe	FT/S&P Europe Ex. U.K.	-19.6	-19.6	1.5	1.5
Ireland	ISEQ	-15.8	-15.8	0.4	0.4
UK	FTSE 100	-13.1	-15.8	1.8	0.0
Japan	Topix	-15.9	-17.8	0.6	-0.3
Hong Kong	Hang Seng	-15.0	-21.7	0.9	0.4
Australia	S&P/ASX 200	-11.5	-15.5	2.4	3.2
Bonds	Merrill Lynch Euro over 5 year Govt.	4.8	4.8	-0.3	-0.3

Global Equities

United States

Overview
US stocks snapped their four-week losing streak and had their best returns in eight weeks. This was as a result of improved risk appetite as the Fed made the commitment to aid the economy in the future, if required. All ten S&P 500 Index sectors rose during the week, led by tech and consumer cyclicals.

Bank of America – The bank was one of the best performers over the week after, firstly, Warren Buffett's Berkshire Hathaway said it will invest $5 billion in it and, secondly, the bank announced it would sell at least half of its 10% stake in China Construction Bank.

Europe

Overview

European markets recovered some of their recent losses after rising on investor and Fed views that the global economy will experience growth during the remainder of 2011.

Swiss market – The Swiss market was the strongest in Europe after the franc weakened for a third successive week, helping its exporters. Logitech led the way, rising 22%.

Ireland

Overview

The ISEQ was one of the weaker performers last week, finishing barely positive.

Glanbia – The food company announced a surge in profit and revenues for the first half of the year. It has now raised its earnings forecast for 2011 and its shares rose over 4%.

Asia Pacific

Overview

Asian markets finished what was a volatile week, mostly positive. Markets rose in anticipation of some action from the Fed to stimulate global growth. While markets closed prior to the Fed's comments, they reacted positively in this morning's trade. Korea and Australia, more cyclical markets, were the strongest gainers in euro terms, rising 7% and 5% respectively.

Bonds

German bunds fell marginally during the week as speculation mounted that the Fed may introduce another round of quantitative easing to stimulate the US and; in turn, the global economy. However, no immediate stimulus package was announced. Overall, though, the Merrill Lynch over 5 year government bond index fell 0.3% on the week

Global Outlook

- Current and forward indicators of economic activity suggest that global growth rates have likely peaked for the moment. Investors are now concerned that this is more than a mid-cycle pause and is, perhaps, something more significant. Inflation has been 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. However, some of these should dissipate if growth moderates further. So far, there are no major countries actively seeking currency strength, a key indicator that central banks are not concerned about inflation.
- Official interest rates remain at emergency levels in the US and, given the recent explicit statement from the Fed, investors expect this situation to persist for another two years; two-year US rates have just reached a new low of 0.19%. The balancing act facing the ECB is very problematic, with the peripheral economic position a considerable complication to its decision-making. Rates are very low in the eurozone, despite recent increases, and future rate expectations have flipped over with some small reduction now expected before year end. This may be a little premature but the change of direction seems correct and validates the idea that the current hiking cycle would be very short.
- The ECB buying of Italian and Spanish bonds has had a positive impact but its commitment to this buying is a subject of some debate, both inside the ECB and elsewhere. Investors are impatiently waiting for the next anticipated development, a jointly guaranteed Eurobond, but it is unclear whether this is politically possible and the situation is very fluid. It remains to be seen whether the peripheral debt crisis has been fully addressed. The US debt ceiling debacle has resulted in a temporary fix that could come back quickly to investors' attention and the downgrade by S&P complicates matters. Despite the low level of US and German bond yields, it appears that long-term interest rates in the US and Germany remain on a neutral to downward trend. While they may rise in the near term if equities recover some of their losses, long-term interest rates could stay low for a further considerable period of time.
- In what has been a volatile year, global equities are down around 14% in euro terms, the vast bulk of that fall happening this month. Valuations are reasonable but investors are now questioning the path of future corporate profits, given renewed economic growth worries. Investors are also incorporating risks with regard to fiscal sustainability, the future of the euro and developments such as the proposed financial transactions' tax. The consensus expectation for gains during this year has taken a battering recently, although a lot can happen between now and the end year. Currently, we remain concerned that further slow-down concerns have yet to be fully discounted by investors despite recent negative price action. However, in the short term, markets could rebound somewhat given the recent sharp sell-off which has put them into oversold territory. Last week's speech by the Fed president may do something to help confidence in the near term.
- Currently, the funds are closer to neutral in equities (having added exposure recently) and slightly overweight bonds versus the manager average. Within equity sectors the funds remain underweight financials and overweight technology. Geographically, the funds are underweight in Ireland and the UK, neutral in Japan and Europe and overweight in the US and in the Pacific region.

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