Zurich Life Investment Outlook 2012

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Overall

Although reasonable valuations offer support to equities, the downgrading of future corporate profits and the sovereign debt crisis are likely to result in volatile equity markets during 2012. Interest rates to remain at emergency levels.

Downside risks to outlook:

- Disorderly break-up of Euro; not central scenario but a risk nonetheless.
- Increased Middle East tensions, oil supply disruption.
- Sovereign stress moves beyond Europe.
- Hard landing in China.

Upside risks to outlook:

- Additional co-ordinated global policy action.
- US economy surprises on upside.
- Eurozone resolution; bond spreads tighten significantly.
- Emerging markets see increased domestic demand.

Economic Growth

How long will weaker economic growth phase last?

- With the possible exception of the US, global economic growth is likely to slow further in 2012. However, further stimulus could help to reverse this trend.
- Eurozone crisis resolution is necessary in order to prevent a prolonged recession in Europe.
- Inflationary pressures have started to ease across the globe, a trend that is likely to continue in 2012.
- Policymakers in China have a delicate operation to perform to engineer a soft landing.

Equity Markets

Equities caught between reasonable valuations and risk aversion.

- On a price earnings basis, equity markets offer reasonable value in an historical context.
- Consensus expectations are for 11% earnings' growth globally, although there are clear risks to this.
- Weaker economic growth, high debt burdens and the eurozone crisis could adversely impact equities during 2012.
- Although policy measures will seek to offset these risks, expect equities to stay volatile during the year.

Interest Rates & Bonds

Emergency rate levels to remain. Will ECB actively drive the peripheral bond markets?

- Core eurozone bond yields are likely to test their recent lows during Q1 2012.
- Any proper resolution of the sovereign debt crisis would likely see core yields move higher later in the year.
- Further interest rate cuts are likely in the eurozone in Q1 2012. Thereafter, rates should remain low for an extended period of time.
- US and UK short term rates are expected to remain at current emergency levels until 2014.

Currency & Commodity Markets

Will safe haven flows dominate currency markets?

- A key issue is that no major country wants a strong currency.
- Expect no change in this stance during 2012; global disinflation pressures remain.
- Central market expectation is that the Euro remains intact.
- Gold could continue to be a beneficiary of safe haven flows.
- Geopolitical tensions aside, weaker global growth could put downward pressure on oil prices.

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