Zurich Life
Weekly Investment News

9th May 2011

ZURICH

Global Overview

Equities fall
Most equity markets finished the week lower, but this hides the strong rally experienced on Friday after upbeat jobs data in the US. This rally only helped to pare the week's losses though.

US jobs boost
US companies added 244,000 jobs in April, far exceeding investors' estimates of 185,000. Despite this increase, the unemployment rate rose by 0.2% to 9%, as people rejoined the labour force amid the improving employment conditions.

US data
The Institute for Supply Management's manufacturing and non-manufacturing indices both showed slower-than-expected activity in April while elsewhere, jobless claims for the week rose from the previous week.

ECB meeting
The ECB left interest rates unchanged at 1.25% and surprised analysts by suggesting that the next rate rise will not come, as had been expected at its June meeting.

Currencies
The €/$ rate fell almost 3% last week, the most in four months, to end at 1.44. This followed the ECB's signal that rates will not move next month and the strengthening dollar after the good jobs data.

Commodities
With the dollar strengthening during the week, oil had its biggest decline in over two years as the appeal of commodities as an alternative investment is reduced. The West Texas oil price finished at $97 a barrel, a decline of almost 15% over the week. Most metals also followed suit, with gold and silver declining heavily.

	Index	Year to Date Return 31.12.10 to 06.05.11		1 Week Return 29.04.11 to 06.05.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.2	-1.2	-1.4	0.1
US	S&P 500	6.6	-1.1	-1.7	1.2
US	NASDAQ	6.6	-1.1	-1.6	1.3
Europe	FT/S&P Europe Ex. U.K.	3.9	3.9	-1.1	-1.1
Ireland	ISEQ	3.7	3.7	-0.4	-0.4
UK	FTSE 100	1.3	-1.2	-1.5	-0.5
Japan	Topix	-4.7	-10.7	0.5	4.6
Hong Kong	Hang Seng	0.5	-6.6	-2.4	0.5
Australia	S&P/ASX 200	0.0	-2.6	-1.7	-0.7
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.1	-0.1	0.5	0.5

Global Equities

United States

Overview
US stocks rallied on Friday but still finished the week over 1% lower. Weak economic data, prior to Friday's jobs figures, and a slump in commodity prices - hurting profits at Exxon Mobil, for example - contributed to the fall.

Energy sector – The slump in commodity prices, most notably oil, resulted in energy stocks being the weakest on the S&P 500 Index last week. The sector fell 7%, the biggest retreat for the sector in the past year. Exxon Mobil, the world's largest company by market value, fell 6%.

Europe

Overview

European stocks declined after disappointing economic data, both in the region and the US, overshadowed the ECB's meeting and the US jobs data.

Lloyds – The UK banking group fell 9% after it reported a Q1 loss. This loss was mainly attributed to its decision to set aside £3.2 billion to settle claims that clients were improperly sold loan insurance. The underlying earnings also disappointed, which caused forecasts to be downgraded significantly.

Ireland

Overview

The Irish market finished the week slightly lower overall, but it pared its losses on Friday after good gains in major stocks, CRH & Ryanair, which benefited from the lower oil prices.

Smurfit Kappa – A sharper-than-expected rise in input costs caused the packaging company to report Q1 results that missed analysts' estimates. Its stock finished the week 10% lower.

Asia Pacific

Overview

Asian markets fell as US economic data disappointed and fears increased that the recovery worldwide is weakening, while the fall in commodity prices also weighed on stocks. These contributed to mining stock, BHP Billiton, dropping almost 3% and Chinese oil company, CNOOC, falling 6%. Japan was closed for most of the week for traditional holidays.

Bonds

Bonds had a good week as expectations for the next eurozone rate rise were pushed out by a month and some disappointing industrial production and factory orders data boosted the demand for core eurozone bonds. In addition, sovereign worries in peripheral countries re-emerged, with the Greek fiscal situation looking increasingly unsustainable, boosting core country bonds. The Merrill Lynch >5 year government bond index ended the week 0.5% higher.

Global Outlook

- Leading indicators are now consistent with the general expectation that global growth rates, while being fairly healthy again this year, have probably peaked for now. Inflation remains a regional or country-specific concern for investors - particularly in some Asian countries - rather than a global problem but there are some shared concerns, such as energy and food prices. There are no major countries actively seeking currency strength, a sign that key central banks are not yet particularly concerned about inflation.
- Interest rates in some developed countries remain close to emergency levels. After the recent ECB rate hike investors anticipate that rates could rise by a further 0.40% by year end - less than previously expected - but any further increases may prove difficult for some of the peripheral economies to absorb. The Fed may stay on hold for longer but rates are still anticipated to rise in the first quarter of 2012.
- German and US long-term interest rates have risen more than 1% from their cyclical lows, in line with higher short-rate expectations and better growth numbers. Indeed, the general consensus remains that German and US yields will rise further over the course of 2011. The Spanish bond market has behaved well with investors continuing to make a clear distinction between it and other peripheral markets. For the latter, severe difficulties remain and, with talk of Greek "restructuring" becoming more prevalent, it still is the case that investors worry that they are being softened up for sovereign default in the weaker eurozone countries.
- Amidst a volatile start to the year, global equities are slightly negative in euro terms but have been pretty resilient in the face of bad news such as surging oil prices, political turmoil in the Middle East and the Japanese disaster. To date, rising bond yields have also been taken reasonably well as they are deemed to reflect a "normalisation" of the global economy following the financial crisis. There is still a general market expectation for gains during the year on the basis of reasonable valuations and earnings' growth. Although changes to earnings' expectations have become less positive of late - which tends to be tricky for markets - actual earnings' data has been better than expectations and this should be helpful overall. In the short-term, more talk of peripheral defaults or of more aggressive Chinese monetary tightening may cause some further risk aversion.
- Currently, the funds are underweight equities and neutral bonds, versus the manager average. Within equity sectors the funds are underweight financials and pharmaceuticals and overweight technology. Geographically, the funds are underweight in Ireland, the UK and Japan, closer to neutral in Europe and the US and are overweight in the Pacific region.

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