Zurich Life
Weekly Investment News

ZURICH

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Global Overview

Equity markets fall

Global equity markets ended the week significantly lower, weighed down by growing investor nervousness about the US debt ceiling gridlock. Investors switched out of riskier assets into the safety of gold and core bonds on the back of disappointing economic releases and worries about contagion from the eurozone debt crisis.

US debt ceiling

The ongoing wrangling by US policymakers to raise the country's debt ceiling intensified last week, raising concerns that the country might lose its triple-A debt rating. However, at the eleventh hour, the US House of Representatives approved a last minute bill to avert a debt default. This bill will see more than $2 trillion in expenditure cuts with no increases in taxation.

US economic data

The US economy grew by a less-than-expected 1.3% in Q2 2011. Elsewhere, the University of Michigan Sentiment Index revealed that consumer confidence fell by more than forecasted in July, to its lowest level in two years.

Currencies

The euro gained slightly against the dollar last week, as disappointing US growth figures along with concern that the US could lose its triple-A debt rating knocked investor sentiment. However, the euro also came under pressure, as worries that European plans to bail out Greece would not contain the debt crisis, undermined it at times. The €/$ rate ended the week at 1.44.

Oil & gold

In commodities, the oil price (West Texas) ended the week at $96 a barrel, a fall of 4%, as disappointing data releases and worries over the outcome of the US debt ceiling hurt investor sentiment. Gold hit another record high, briefly pushing above $1,630 per troy ounce on Friday, before finishing at $1,624.

	Index	Year to Date Return 31.12.10 to 29.07.11		1 Week Return 22.07.11 to 29.07.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	0.0	-3.5	-3.3	-3.0
US	S&P 500	2.8	-4.5	-3.9	-4.0
US	NASDAQ	3.9	-3.4	-3.6	-3.7
Europe	FT/S&P Europe Ex. U.K.	-4.0	-4.0	-2.9	-2.9
Ireland	ISEQ	-2.2	-2.2	-3.6	-3.6
UK	FTSE 100	-1.4	-3.4	-2.0	-1.4
Japan	Topix	-6.4	-8.5	-3.2	-1.7
Hong Kong	Hang Seng	-2.6	-9.7	0.0	-0.2
Australia	S&P/ASX 200	-6.8	-6.9	-3.9	-2.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.1	0.1	0.1	0.1

Global Equities

United States

Overview

US equities fell heavily last week, as concern about the health of the US economy and worries about Washington's inability to raise the debt ceiling pushed stocks lower last week. The S&P 500 Index finished the week almost 4% lower.

Earnings – US drug company, Merck, second-quarter profits came in line with expectations. The company announced a new cost restructuring programme whereby it plans to cut as many as 13,000 jobs or 13% of its workforce. Elsewhere, Exxon Mobil reported that Q2 earnings were up 41% from the same period last year, largely driven by higher oil prices. Despite this, the results missed analysts' estimates.

Europe

Overview

European markets shed 3% over the week, due to renewed worries about eurozone debt problems.

Credit Suisse – The Swiss investment bank missed profit forecasts for Q2, announcing it would cut 4% of its global workforce in order to reduce costs.

Ireland

Overview

The Irish market retreated almost 4% lower, in line with the rest of the world.

Elan – The Irish drug maker's Q2 profits almost tripled due to strong sales of its multiple-sclerosis drug Tysabri, prompting the company to raise its full-year profit forecast.

Asia Pacific

Overview

Weak data releases worldwide and increased uncertainty, caused most Asian stocks to decline over the week. The Japanese Topix index fell over 3% while Australian equities fell a hefty 4%. Elsewhere, South Korean, Samsung Electronics reported a 25% fall in quarterly profit as its flat screen business posted a second consecutive quarterly loss on a short-term supply glut, overshadowing strong growth from Android-based handset sales.

Bonds

Core bond markets performed well as investors moved away from risky equity assets towards safer assets. Worries over the eurozone periphery resurfaced and an auction of Italian 10-year debt saw yields reach their highest for eleven years. Elsewhere, Spain faces the possibility of a fresh credit-rating downgrade on the back of rising borrowing costs. The Merrill Lynch >5 year Government bond index ended the week slightly higher.

Global Outlook

- Forward indicators of economic activity suggest that global growth rates have most likely peaked for the moment. The key question for investors is whether this is a mid-cycle pause or something more significant, and that is being hotly debated at the moment. However, recent data has been more supportive of a negative outlook. 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, 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 the eurozone despite recent increases and future rate expectations remain contained, with only a small chance of another 0.25% increase before year end. The balancing act facing the ECB is still very 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 outcome of the recent EU summit saw a significant narrowing in the spreads of Greece, Ireland and Portugal amid hopes from governments that their decisions had quelled the eurozone peripheral crisis; Spanish and Italian spreads initially erased much of the recent increases but quickly widened again. This is a concern, given that policymakers felt they had put an end to the crisis. A key factor in markets' reaction has been that the decisions announced are not yet supported by actual monies. It is likely that the conviction behind the latest decisions will be tested further over the coming weeks and months. The US debt ceiling debacle has resulted in a temporary fix that could come back quickly to investors' attention. Overall, it appears that long-term interest rates in the US and Germany remain on a neutral to downward trend and that further falls are likely. However, given the speed of recent falls, it is quite possible that there is some stalling or reversal in the trend in the short-term.
- In what has been a volatile year, global equities are down around 3.5% 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 has been dominated by the debt-ceiling negotiations and weaker US economic data. US earnings have beaten expectations but guidance has been neutral to slightly weaker; earnings have disappointed expectations in Europe, particularly amongst industrial companies. 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 pause given the recent sharp sell-off in some regions.
- Currently, the funds are underweight equities and neutral bonds versus the manager average. Within equity sectors, the funds are underweight financials and overweight technology. Geographically, the funds are underweight in Ireland, the UK and Europe, neutral in the US and Japan and overweight the Pacific region.

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Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

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