# Zurich Life
# Weekly Investment News

3rd May 2011

ZURICH

## Global Overview

### Most markets gain
Most markets finished the week higher as good earnings releases outweighed some mixed economic data.

### US data
The Federal Reserve left rates unchanged at its latest meeting and suggested that there would be no near-term changes to US monetary policy. Elsewhere, jobless claims and housing data were weaker-than-expected.

### Eurozone inflation worries
Inflation in the region rose during April to 2.8% p.a., up from 2.7% p.a. in March. This is the highest level in two-and-a-half years and may result in more rate rises by the ECB than previously expected.

### Chinese data
Chinese manufacturing data showed activity for April fell by more-than-forecast. Interest rate rises and higher banking reserve ratio requirements contributed to this slowing of activity.

### Currencies
The €/$ rate gained 1.9% following the Fed commenting that it is unsure when monetary stimulus would end, leaving investors expecting rates to remain at record lows until mid-2012. Also contributing to this currency movement was the jump in eurozone inflation, which may result in further near-term rate hikes. The €/$ rate ended the week at 1.48.

### Commodities
Further weakness in the US dollar along with the improvement in risk appetite, as a result of good earnings data, drove the oil price higher last week. The West Texas oil price finished above $114 a barrel, a weekly gain of 1.5%. Prices are now close to a 31-month high.

| | Index | Year to Date Return 31.12.10 to 29.04.11 | | 1 Week Return 22.04.11 to 29.04.11 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| Global | FTSE World | 5.7 | -1.3 | 1.4 | 0.2 |
| US | S&P 500 | 8.4 | -2.3 | 2.0 | 0.1 |
| US | NASDAQ | 8.3 | -2.3 | 1.9 | 0.0 |
| Europe | FT/S&P Europe Ex. U.K. | 5.0 | 5.0 | 1.9 | 1.9 |
| Ireland | ISEQ | 4.2 | 4.2 | 1.6 | 1.6 |
| UK | FTSE 100 | 2.9 | -0.7 | 0.9 | 0.0 |
| Japan | Topix | -5.2 | -14.6 | 1.1 | 0.2 |
| Hong Kong | Hang Seng | 3.0 | -7.1 | -1.7 | -3.5 |
| Australia | S&P/ASX 200 | 1.6 | -1.9 | -1.8 | -1.8 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | -0.5 | -0.5 | 0.6 | 0.6 |

## Global Equities

### United States

### Overview
Despite some disappointing economic data, further expectations-beating earnings and the Fed's pledge to keep stimulus in place, helped the S&P 500 Index to its highest level since June 2008.

**Earnings** – So far, US Q1 earnings have surpassed expectations in 77% of cases and earnings-per-share are 7% higher than expectations. Merck rose over 5% during the week after it beat estimates and announced a $5 billion stock buyback program. Caterpillar not only beat expectations, but boosted its forecast for 2011, helping its shares gain 5% over the week.

## Europe

### Overview

European stocks had another strong week after companies across many sectors, including Ericsson, Volkswagen, Parmalat & ABB, beat earnings expectations.

**Ericsson –** The world's largest maker of mobile-phone networks rose the most in a year after growth in sales of its wireless-broadband equipment helped Q1 profit more than triple and exceed analysts' expectations. Its shares finished the week 18% higher.

## Ireland

### Overview

The Irish market followed Europe higher with a rise of 1.6%.

**CRH –** Strong first quarter results from the Saint-Gobain Group boosted construction stocks, while further to this, it was speculated that CRH may gain when reconstruction of areas hit by storms in southern United States begins. CRH gained almost 3% on the week.

## Asia Pacific

### Overview

It was a mixed week for Asian stocks, in what was a shortened trading week in many countries due to national holidays. Among the main factors, driving markets were upbeat earnings results and economic data in many regions. However, anticipation of more policy tightening and talks of a further property tax in China were a notable drag on markets. Stockwise, Canon saw its shares rally over 8%, after its results, as some analysts said they felt "the profit and sales forecasts were too conservative". Hyundai Motor hit a record high after strong Q1 results. Earnings were boosted by better-than-expected market share and margins in the US.

# Bonds

Bonds gained during the week after some weak economic data and month-end buying flows. Bonds finished off their high though, following a further jump in eurozone inflation. The Merrill Lynch over 5 year government bond index ended the week 0.6% higher.

# Global Outlook

- The global purchasing managers' survey appears to have rolled over – albeit from relatively high levels – and this is consistent with the general expectation that global growth rates, while being fairly healthy again this year, have probably peaked. Inflation remains a regional or country-specific concern for investors rather than a global problem but there are some shared concerns, such as energy and food prices. There are no countries actively seeking currency strength, a sign that 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 expect that rates could rise by a further 0.75% by year-end, even if these increases might be 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 is 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. The initial positive reaction to the Irish bank stress tests did not last and spreads are back to their widest levels. The Portuguese loan announcement was much anticipated and so far there has been no positive reaction there. 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 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 a tricky for markets – actual earnings' data has been better than expectations and this may lead the markets a little higher again in the near-term.
- 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 energy and 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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