Zurich Life
Weekly Investment News

23rd May 2011

ZURICH

Global Overview

Markets fall
Equity markets finished the week lower as caution amongst investors increased on the back of economic, sovereign and corporate earnings concerns.

US data
Jobless claims showed significant improvement last week, while manufacturing activity in New York and Philadelphia showed continued expansion, although at a slower-than-forecast rate. Housing starts and existing home sales also disappointed as they unexpectedly decreased.

Portugal
The IMF and EU approved a joint €26 billion loan to Portugal to help it shore up its budget deficit.

Italy's rating
The Italian Treasury said it will "intensify" structural changes in the economy to try to help balance its budget by 2014. This followed Standard & Poor's reduction of the country's outlook to 'negative'. This signals that its credit rating may be cut unless its finances improve.

UK inflation
UK data showed that inflation accelerated more than economists had expected in April, resulting in hitting its fastest pace since 2008.

Currencies
The €/$ rate fell to a seven-week low, due partly to concerns that Greece may default and need to restructure its debt. The €/$ rate ended the week just below 1.42.

Commodities
Oil remained just below the $100 a barrel mark after two separate reports showed an unexpected drop in US inventories and an increase in fuel consumption in April. The West Texas oil price finished the week relatively flat, at $99 a barrel.

	Index	Year to Date Return 31.12.10 to 20.05.11		1 Week Return 13.05.11 to 20.05.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.4	-0.3	-0.3	0.0
US	S&P 500	6.0	-0.2	-0.3	-1.0
US	NASDAQ	5.7	-0.5	-0.9	-1.6
Europe	FT/S&P Europe Ex. U.K.	2.4	2.4	-0.8	-0.8
Ireland	ISEQ	2.9	2.9	-1.2	-1.2
UK	FTSE 100	0.8	-1.1	0.4	0.1
Japan	Topix	-7.9	-13.7	-1.4	-3.2
Hong Kong	Hang Seng	0.7	-5.2	-0.3	-1.0
Australia	S&P/ASX 200	-0.3	-2.0	0.4	0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.5	0.5	-0.2	-0.2

Global Equities

United States

Overview
The S&P500 Index finished lower for the third consecutive week, its longest losing streak since August. A reduction in some earnings' forecasts outweighed some positive economic data and an IPO from LinkedIn which saw huge demand.

Hewlett Packard – Shares in the technology company fell over 10% during the week, contributing to the technology sector being the weakest sector. HP announced during the week that it was reducing its sales forecast for 2011 by over one billion dollars.

Europe

Overview

European stocks made it three consecutive weeks of losses after downgrades, economic data and concerns about Greece weighed on markets.

European banks – The sector was down over 2% on the back of rising concern about the sustainability of debt levels in many eurozone countries.

Ireland

Overview

The Irish market finished the week lower, in line with the rest of the world, with some of its largest stocks, CRH, Dragon Oil and DCC all declining.

Paddy Power – The company released a positive trading update which prompted some brokers to upgrade their forecasts for the year. So far in 2011, revenues of the group were up 21%, driven by a strong online performance. Its shares finished the week 2.7% higher.

Asia Pacific

Overview

Asian markets fell for another week on fears that the economic recovery will falter after Japan slipped back into a recession, economic data were mixed and the eurozone crisis, especially in Greece, worsened. Japan's economy shrank more-than-expected in Q1, and coupled with the contraction in Q4 2010, leaves the country in its third recession in a decade.

Bonds

Eurozone bonds fell last week as fears that Europe's sovereign-debt crisis may escalate again hurt investors' sentiment. This followed the view that Greece may need to restructure its debt, pushing its credit spread versus Germany to a record wide. German bonds managed to gain, though, as the ECB said it might not accept Greek bonds as collateral from now on. The Merrill Lynch over 5 year government bond index ended the week 0.2% lower.

Global Outlook

- Leading indicators of economic activity suggest that global growth rates have probably peaked for now, albeit from reasonably high levels. Inflation generally is 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. To date, there are no major countries actively seeking currency strength, a sign that key central banks are not yet particularly concerned about inflation.
- Short-term 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 0.4% 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.
- Although the general expectation is that German and US long-term interest rates will rise during the course of the year, the recent falls from their cyclical peaks may be extended for a while yet amid some near-term risk aversion in markets. The Spanish bond market had behaved reasonably well year to date, with investors making a clear distinction between it and other peripheral markets. While some concerns are beginning to emerge in Spain now, the major concern rests with Greece where talk of "restructuring" has become more prevalent, with investors also pricing for significant sovereign default in both Portugal and Ireland.
- Amidst a volatile start to the year, global equities are broadly flat in euro terms but have been pretty resilient in the face of the bad news that has hit markets this year, such as surging oil prices, political turmoil in the Middle East and the Japanese disaster. 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 have been better than expectations and this should be helpful overall. In the short-term, more talk of peripheral defaults and concerns over 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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