Zurich Life
Weekly Investment News

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ZURICH

Global Overview

Equity markets retreat marginally
Fresh signs of an economic slowdown in the US and China, along with growing worries of contagion from the eurozone debt crisis, increased pressure within equity markets last week. Although some respite came later in the week, these gains only pared the weekly losses.

US data
The US economy grew by a disappointing 1.8% annual rate in the first quarter of 2011, after a 3.1% increase over the previous quarter. Elsewhere, latest initial jobless claims increased, while there was a decline in the closely-watched housing starts number.

German Ifo Index
The Munich-based research institute Ifo revealed that German business morale held steady in May at 114.2, after falling for the two previous months.

UK consumer confidence
According to the GfK consumer confidence index, overall sentiment picked up from -31 to -21 during May, the sharpest increase since May 1993.

China PMI numbers
Latest figures indicate weaker manufacturing growth in China. The PMI manufacturing index reading came in at 51.1 for May, its lowest level in ten months. This adds to signs that economic growth is cooling after the government raised interest rates and curbed lending to rein in inflation.

Currencies & commodities
The dollar weakened 0.5% against the euro amid lacklustre economic data releases from the US economy. The €/$ rate ended the week at 1.43. The West Texas oil price finished the week at just over $100 a barrel. Elsewhere, gold edged to $1,537 an ounce, as the eurozone debt concerns heightened risk aversion.

	Index	Year to Date Return 31.12.10 to 27.05.11		1 Week Return 20.05.11 to 27.05.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.2	-0.7	-0.2	-0.5
US	S&P 500	5.8	-0.9	-0.2	-0.7
US	NASDAQ	5.4	-1.3	-0.2	-0.8
Europe	FT/S&P Europe Ex. U.K.	1.8	1.8	-0.6	-0.6
Ireland	ISEQ	2.9	2.9	0.0	0.0
UK	FTSE 100	0.7	-0.3	-0.2	0.8
Japan	Topix	-8.2	-13.6	-0.3	0.1
Hong Kong	Hang Seng	0.4	-6.2	-0.4	-1.0
Australia	S&P/ASX 200	-1.3	-3.2	-1.0	-1.2
Bonds	Merrill Lynch Euro over 5 year Govt.	1.1	1.1	0.7	0.7

Global Equities

United States

Overview
US equities fell for the fourth straight week amid disappointing economic releases (US first-quarter growth, housing starts and jobless claims) and fresh uncertainty over the eurozone sovereign debt situation. The S&P 500 fell 0.2% to 1,331 last week. It dropped throughout May after reaching almost a three-year high in late April.

Tiffany – The luxury jeweller reported that first-quarter earnings rose 26% as a result of double-digit sales growth. The company noted that sales in Japan have picked up more quickly than expected after the March earthquake and raised its full-year profit forecast.

Europe

Overview

The European market had a volatile week on concern that European governments will struggle to resolve the region's debt crisis amid a slowing global recovery.

Mining stocks – Copper miners bucked the trend last week, performing well on news that Chinese stockpiles of the metal had reached a 21-month low. Antofagasta advanced over 4%, while Xstrata and Rio Tinto gained 2% and 3% respectively over the week.

Burberry – The fashion brand is set to increase expenditure on stores in London, flagship cities globally and in emerging markets after it delivered a 40% surge in full-year profits.

Ireland

Overview

The Irish market traded in line with other markets to end the week flat.

Ryanair – Despite a year of higher oil prices and volcanic ash disruptions, the airline's results for the year to the end of March showed that profits rose by 26%, to €401 million, and its traffic grew by 8% to 72 million passengers.

Asia Pacific

Overview

China's stocks ended the week marginally down, on concerns that the government will keep tightening monetary policy to tame inflation levels. Sony's share price fell over 3% on Friday, after a disappointing outlook from the company weighed on the Japanese market. The electronics maker has been hit by the supply chain disruptions seen in Japan since the natural disasters of March.

Bonds

Declining equity markets helped bonds last week, as investors turned to fixed interest for its safe-haven status. Worries surrounding peripheral countries remained in focus, prompting a flight-to-quality to core bond markets. Growing fears of a Greek default sent spreads on five-year credit default swaps to fresh records of 15%. The Merrill Lynch over 5 year government bond index ended the week 0.7% higher.

Global Outlook

- Leading indicators of economic activity suggest that global growth rates have probably peaked for now, albeit from reasonably high levels. 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. To date, there are no major countries actively seeking currency strength, an indicator that central banks are not yet particularly concerned about inflation.
- Short-term interest rates in the US and eurozone remain close to emergency levels. Indeed, Japan has had such low rates for over 15 years now. 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 persists 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. Investors are experiencing "periphery fatigue" with a seemingly endless series of announcements and leaks on the matter. Talk of "restructuring" in Greece has become more pronounced, 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 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. 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 slightly overweight 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.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life.
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