Zurich Life
Weekly Investment News

13th June 2011

ZURICH

Global Overview

Equity markets fall
Global equity markets came under pressure last week, some for the sixth straight week, as markets continued to focus on the sluggish pace of the global recovery and fretted over rising sovereign default risks across the eurozone region.

US economic data
The Chairman of the Federal Reserve Ben Bernanke delivered a dovish speech about the strength of the US economy, offering no new clues as to whether further quantitative easing programmes would be forthcoming. Elsewhere, strong demand for American goods & services drove the trade deficit down almost 7% in April and, as a result, some economists have revised up Q2 growth forecasts.

Greece
Greek five-year credit default swap spreads widened to their highest level on record, as the dispute between the ECB and eurozone politicians over a fresh bailout for Greece escalated.

UK data
UK interest rates were held unchanged at 0.5%. Despite rising inflation levels, this is the 27th month in a row that rates have been left unchanged.

Eurozone data
The European Central Bank left interest rates unchanged at 1.25% last week. However, President Jean-Claude Trichet signalled an increase next month through the use of language such as "strong vigilance".

Currencies
The euro fell from a one-month high against the dollar on the back of the ECB's decision to leave rates on hold. The inflation forecast for 2012 was also left unrevised, prompting the scaling back in interest rate expectations. The €/$ ended the week at 1.44, almost 2% lower.

Oil
Commodity market news was dominated by a meeting of OPEC ministers in Vienna last week, where Saudi Arabia's efforts to raise OPEC's production quota were thwarted by Iran. The West Texas oil price finished the week at $99 a barrel, a decline of 1% over the week.

	Index	Year to Date Return 31.12.10 to 10.06.11		1 Week Return 03.06.11 to 10.06.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-0.4	-4.8	-2.0	-1.1
US	S&P 500	1.1	-6.0	-2.2	-0.5
US	NASDAQ	-0.3	-7.3	-3.3	-1.5
Europe	FT/S&P Europe Ex. U.K.	-1.7	-1.7	-2.5	-2.5
Ireland	ISEQ	0.0	0.0	-1.9	-1.9
UK	FTSE 100	-2.3	-5.3	-1.5	-0.9
Japan	Topix	-9.1	-14.5	0.1	1.9
Hong Kong	Hang Seng	-2.7	-9.6	-2.3	-0.7
Australia	S&P/ASX 200	-3.9	-7.7	-0.5	-0.6
Bonds	Merrill Lynch Euro over 5 year Govt.	1.0	1.0	-0.3	-0.3

Global Equities

United States

Overview
US equities tumbled for the sixth week, led by cyclical stocks, as investors turned away from risk assets amid worries about the sluggish pace of the US recovery.

Financials – The financial sector was one of the worst performers with the US S&P financial index down 2.6% over the week. Bank of America and Citigroup suffered losses of 4%. Elsewhere, defensive sectors such as utilities and telecoms performed better.

Europe

Overview

European markets ended the week almost 3% lower on concern that European governments will struggle to resolve the region's peripheral debt crisis amid a slowing global recovery.

AstraZeneca – The UK's second-largest drugmaker's share price fell over 2% last week amid concerns that its top-selling drug, Rosuvastatin, the cholesterol-lowering drug also known by the brand name Crestor, was losing market share to Pfizer's rival drug Lipitor which is going generic.

Ireland

Overview

The Irish market ended the week almost 2% lower.

ARYZTA – The global food group reported third-quarter revenues of €1.02 billion, an increase of over 24% from a year earlier. Underlying growth rates in the US and Europe were better than expected. However, the company said that the UK and Irish markets were still moderately in decline.

Asia Pacific

Overview

Concerns about slowing growth, amidst continued monetary tightening, weighed negatively on Chinese stocks last week. Despite latest export figures for China in May rising 19.4% from one year earlier, the pace marks a sharp easing when compared with almost 30% for April. However, import growth accelerated to 28%, highlighting the resilience of Chinese demand for commodities and imported goods and components. Elsewhere, Japan made marginal gains over the week boosted by a small upward revision to its Q1 economic performance.

Bonds

Declining equity markets helped core bond markets attract fresh demand last week, as investors turned to fixed interest for its safe-haven status. Despite this, worries surrounding peripheral countries remained in focus, with Greek, Irish and Portuguese five-year credit default swap spreads widening to record levels. The Merrill Lynch over 5 year government bond index ended the week 0.3% lower.

Global Outlook

- Leading indicators of economic activity suggest that global growth rates have probably peaked for now. Inflation remains more of 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.
- Official interest rates in the US and eurozone remain close to emergency levels. Japan has had such low rates for over 15 years now. Expectations for further ECB rate hikes before year end have remained at around 0.4% for some weeks now. However, the ECB faces a difficult balancing act, with the peripheral economic position a considerable complication to its decision-making. It is plausible that its rate hiking cycle will be very short. Investors continue to push out the timing of the first Fed rate increase which is now put at September 2012.
- Although forecasters expect that German and US long-term interest rates will rise during the course of the year, the recent fall from their cyclical peaks may be extended for a while yet amid some near-term risk aversion in markets. While some concerns are beginning to emerge in Spain now, these have been modest to date – but could become more substantial – and 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 down 5% 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. Actual earnings' data has been better than expectations of late, although changes to earnings' expectations have become less positive lately. In the short term, more talk of peripheral default, concerns over more aggressive Chinese monetary tightening and the peaking of global growth expectations may cause some further risk aversion. However, sentiment has become negative in the recent past and may justify consolidation in the near term before investors' positive conviction levels return.
- Currently, the funds are underweight equities and modestly 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 most areas but remain overweight in the Pacific region.

Print Ref: CSA63

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

ZURICH®