Zurich Life
Weekly Investment News

4th July 2011

ZURICH

Global Overview

Equities rally
Equities snapped their losing streak as economic data showed improvement, following numerous weeks of disappointing data, and Greece sidestepped the possibility of default with the passing of a key austerity package.

Greek improvements
Greek Prime Minister George Papandreou clinched enough votes to pass an austerity plan aimed at reducing the risk of default and meeting EU requirements. In return, the country may receive €85 billion in new financing, which includes a contribution from private investors and the rollover of some debt due between now and 2014.

US economic data
US manufacturing activity expanded at a faster-than-anticipated rate in June. Further to this, the Chicago PMI showed that business conditions improved in June, while consumer confidence did likewise. It wasn't all good news, though, as the jobs picture remained volatile and jobless claims disappointed once again.

UK economic conditions
Latest data in the UK showed that consumer confidence has fallen and manufacturing growth has unexpectedly slowed. This reduces the scope for interest rate increases to combat inflation, resulting in sterling falling to a 15-month low against the euro.

Currencies
The euro rose against the dollar for the first week in a month as optimism increased that Greece will avoid a default following its latest austerity package. This helped higher-yielding currencies gain, to the detriment of low-yielding currencies like the US dollar and Swiss franc. The €/$ rate ended the week slightly above 1.45, a gain of 2.4% over the week.

Oil
The oil price (West Texas) had its biggest weekly gain in over three months following the improved outlook for economic conditions in the US and, more importantly, the easing of Greece's debt crisis. Gains were pared on Friday after weak manufacturing data in China and Europe, but oil finished the week up 4.1% overall.

	Index	Year to Date Return 31.12.10 to 01.07.11		1 Week Return 24.06.11 to 01.07.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.7	-1.6	4.6	3.0
US	S&P 500	6.5	-1.9	5.6	3.2
US	NASDAQ	6.2	-2.2	6.1	3.7
Europe	FT/S&P Europe Ex. U.K.	1.2	1.2	4.6	4.6
Ireland	ISEQ	3.8	3.8	3.9	3.9
UK	FTSE 100	1.5	-3.6	5.1	3.3
Japan	Topix	-5.0	-12.1	2.5	-0.5
Hong Kong	Hang Seng	-2.8	-10.5	1.0	-1.3
Australia	S&P/ASX 200	-3.2	-6.3	1.8	1.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.3	0.3	-0.2	-0.2

Global Equities

United States

Overview
The S&P 500 Index rose on all five days last week, helping it to a gain of 5.6%, its biggest weekly rally in two years. Further to the improved economic data and news from Greece, earnings results from 75% of companies that reported during June beat expectations.

Nike – The sports company saw its shares gain 13%, to hit their highest level this year, after announcing better-than-expected profits. Reduced marketing costs and a boosting of sales helped it offset rising cotton, labour and transportation costs.

Europe

Overview

European markets had their biggest rally in a year after the Greek government passed a five-year austerity package which met the conditions set for further EU/IMF aid from the bailout fund.

TomTom – Shares in Europe's largest maker of portable navigation devices slumped 25% after it cut its full-year profit and sales forecasts. This follows a faster-than-expected decline in US demand.

Ireland

Overview

The Irish market erased its 2011 losses after moving higher by 3.9% over the week.

CRH – The construction company saw its shares rally 11% as sentiment towards construction-related stocks got a boost from a stabilisation of US house prices.

Kerry Group – Kerry Group's capital market day outlined new long-term targets which the market reacted positively to, boosting the stock by over 5% over the week.

Asia Pacific

Overview

Asian stocks gained as the outlook for exports improved and bank earnings got a boost from the economic data released in the US. However, gains in Asia were more modest than the rest of the world following disappointing data which showed Chinese manufacturing activity fell to its lowest level since early 2009. This has increased fears that Premier Wen Jiabao's efforts to tame inflation have slowed growth in the world's second-largest economy.

Bonds

Improving sentiment about Greece, following the passing of its latest austerity package, contributed to its bond prices rising the most out of all eurozone countries. This package, along with some improved data from the US, helped sentiment towards risk-assets increase, causing eurozone bonds to finish the week slightly lower overall. The Merrill Lynch >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, while investors are deciding if it is a mid-cycle pause or something more significant. 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 and investors continue to push out the timing of the first Fed rate increase, which is now put at September 2012. Meanwhile, expectations for further ECB rate hikes before year end have remained at around 0.4% for some weeks now; indeed, we will likely see a 0.25% hike this week. However, the ECB faces a difficult balancing act, 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.
- Although forecasters continue to anticipate that German and US long-term interest rates will rise during the course of the year, the recent fall from their cyclical peaks may extend further amid concerns over a growth slowdown. While concerns are beginning to emerge over Spanish bond spreads, these worries remain contained to date – but could become more substantial – and the major concern still rests with Greece. The latest announcement, in a long series, regarding Greece, has had some positive impact there but talk of debt "restructuring" in Greece, Portugal and Ireland remains centre-stage.
- Amidst a volatile start to the year, global equities are down around 1.5% in euro terms, having recovered into the end of the half-year. Equity markets have been pretty resilient this year despite 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. Upcoming earnings' data will be closely watched by investors to see whether companies are cautious for the period ahead or not. Also, investors will scrutinise economic data to see if the economic slowdown arguments are still valid, especially since the very recent data has been a bit better than expected. We remain at best neutral on equities at this stage, concerned that further slowdown concerns have yet to be discounted by investors.
- Currently, the funds are underweight equities and modestly overweight bonds, versus the manager average. Within equity sectors the funds are underweight financials, though less so, 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®