Zurich Life
Weekly Investment News

11th July 2011

ZURICH

Global Overview

Equities rise
Equities slipped on Friday after some weak economic data, but overall they had another good week as investors begin to focus on Q2 earnings results, which commence this week.

Portugal
Moody's Investor Services downgraded Portugal's sovereign rating by four notches, pushing it to junk status. On the back of this, Portugal's cost of borrowing hit another record high.

Greek bailout
Greece won approval from the IMF for a further payment from the bailout fund, which it was granted a year ago. This decision follows the Greek Prime Minister clinching enough votes to pass an austerity plan aimed at reducing the risk of default.

US jobs data
Data released on Friday, which contributed to markets paring their weekly gains, showed that US employers only added 18,000 jobs in June. This is significantly lower than the expected 105,000. This, coupled with jobless claims data, resulted in the jobless rate hitting 9.2%.

Chinese inflation
Chinese inflation accelerated to its fastest pace in three years, highlighting the difficulty its central bank has in trying to sustain growth while taming prices. During the week, the Government hiked interest rates for the fifth time since September.

Currencies
The euro weakened against the dollar in advance of the regions' bank stress tests and Portugal's rating being cut to junk status. The €/$ rate ended the week just below 1.43, a weakening of 1.7% over the week.

Oil
Following on from its previous week's gain, which was its biggest in over three months, the oil price (West Texas) rose by 1.3% last week, to finish at $96 a barrel. It ended off its highs though, after the poor jobs data caused concern that the economic rebound may struggle.

	Index	Year to Date Return 31.12.10 to 08.07.11		1 Week Return 01.07.11 to 08.07.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	3.8	-0.1	0.1	1.5
US	S&P 500	6.9	0.1	0.3	2.1
US	NASDAQ	7.8	1.0	1.6	3.3
Europe	FT/S&P Europe Ex. U.K.	-0.3	-0.3	-1.4	-1.4
Ireland	ISEQ	2.0	2.0	-1.7	-1.7
UK	FTSE 100	1.5	-2.2	0.0	1.5
Japan	Topix	-2.7	-8.2	2.4	4.4
Hong Kong	Hang Seng	-1.3	-7.7	1.5	3.2
Australia	S&P/ASX 200	-1.9	-3.5	1.4	3.0
Bonds	Merrill Lynch Euro over 5 year Govt.	0.0	0.0	-0.3	-0.3

Global Equities

United States

Overview
The S&P 500 Index rose for yet another week, but slipped on Friday after weak jobs data. Even though there was poor data, consumer-related stocks were among the best performers after monthly sales at a few retail companies beat expectations.

Earnings – This week sees the start of second-quarter corporate earnings results, with Alcoa first up tonight. Analysts have forecasted that earnings overall are expected to have risen by 13% during the quarter. If realised, this would be the smallest gain in two years.

Europe

Overview

European markets had a poor week, with Portugal's downgrade and banks exposure to sovereign debt weighing on markets.

Banking sector – The sector was the weakest last week on contagion fears. With Italian bond prices hitting record lows, UniCredit and Banca Popolare di Milano were heavy fallers, down 18% and 12% respectively.

Ireland

Overview

The Irish market was one of the weakest markets last week, partly caused by construction stocks struggling after Grafton Group's disappointing earnings guidance.

Grafton Group – Shares in Grafton Group fell after it warned that the trading environment in its key markets has showed little recovery and, further to this, sales in Ireland fell at an accelerated pace during May and June following an improvement in April. Shares in the company were 10% lower over the week.

Asia Pacific

Overview

Asian stocks experienced a good week, benefiting from the fact they were closed prior to the disappointing US data release. In China, the effect of tighter monetary policy, which has included interest rates hikes, caused its manufacturing activity gauge to slow to a 28-month low in June. This has led analysts to anticipate that Q2 growth will be 9.3%, compared with 9.7% a year earlier.

Bonds

Bonds markets fell last week as investors fear contagion from Greece's fiscal crisis will spread in the region. This, along with poor industrial output data in the country, caused Italy's bonds to fall all five days. The yield on its 10-year bonds rose to over 5%, the highest level since 2002. Following on from this, Irish and Portuguese bonds also saw price falls. In contrast, core bond markets received a flight to quality bid and German bonds made significant gains on the week. The Merrill Lynch >5 year government bond index ended the week 0.3% lower.

Global Outlook

- Forward indicators of economic activity suggest that global growth rates have probably peaked for now. The key for investors is whether this is a mid-cycle pause or something more significant and that is being hotly debated at the moment. Inflation remains more of a regional or country-specific concern for investors - particularly in some Asian countries - but there are some shared global concerns, such as energy and food prices. To date, there are no major countries actively seeking currency strength, and this is a significant 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. Despite last week's ECB hike, investors' expectations for additional hikes have actually fallen slightly further, with less than 0.25% now discounted by year end. The difficult balancing act facing the ECB, if anything, is getting more problematic, 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.
- The recent fall in German and US long-term interest rates may extend further due to worries over a global growth slowdown. While concerns are beginning to emerge over Spanish and, now, Italian debt positions, these worries remain reasonably contained to date but could yet become more substantial; there is certainly a sense that the crisis could heighten from here. However, the major concern still rests with Greece. The latest announcement, in a long series, regarding Greece, has had only a modest positive impact there, but talks of debt restructuring in Greece, Portugal and Ireland remains centre-stage.
- Amidst a volatile start to the year, global equities are basically flat in euro terms, having recovered into the end of the half-year. That said, 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 but as importantly the guidance from companies for the period ahead will be examined to determine their stance on the "slowdown" debate. We are slightly underweight equities at this stage, concerned that further slowdown concerns have yet to be discounted by investors.
- Currently, the funds are underweight equities and neutral bonds on a tactical basis, 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 the Pacific region.

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