Zurich Life
Weekly Investment News

8th August 2011

Global Overview

Equity markets slump
Global equity markets suffered their worst week since the peak of 2008's financial crisis. This was as a result of further weak economic data in the US, fears that the eurozone debt crisis will escalate in Italy & Spain and that the US may lose its AAA credit rating, which duly happened after markets closed on Friday.

US credit rating
Standard & Poor's Ratings downgraded the US's credit rating on Friday. Its rating for the country is now AA+, down from the much prized AAA status, with the outlook remaining 'negative'. S&P blamed lawmakers for failing to cut spending enough to reduce record-high budget deficits.

ECB
Amid fears that the debt crisis would extend to Spain and Italy, the ECB held interest rates constant at 1.5%. It is anticipated that rates will not move until sometime during 2012.

US economic data
It was another week of disappointing data in the US, with manufacturing and consumer spending the latest to show weakness. There was some good news on Friday, though, as reports showed that employers added 117,000 jobs in July, which is higher-than-expected. The unemployment rate fell to 9.1%, this fall being attributed to disillusioned workers leaving the workforce.

Currencies
The dollar rose against almost all of its major trading counterparts as demand for higher-risk assets was dampened by the worsening eurozone debt crisis and worries that economic growth worldwide was slowing. The €/$ rate ended the week at 1.42, a weakening of 1%.

Oil & gold
The oil price (West Texas) ended the week at $87 a barrel, a fall of 9%, following further disappointing data releases last week. It did, however, pare some losses on Friday after the jobs data release. Gold finished the week at $1,657, yet another record high.

	Index	Year to Date Return 31.12.10 to 05.08.11		1 Week Return 29.07.11 to 05.08.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-8.0	-10.7	-7.9	-7.5
US	S&P 500	-4.6	-10.5	-7.2	-6.3
US	NASDAQ	-4.5	-10.4	-8.1	-7.2
Europe	FT/S&P Europe Ex. U.K.	-14.1	-14.1	-10.6	-10.6
Ireland	ISEQ	-13.1	-13.1	-11.2	-11.2
UK	FTSE 100	-11.1	-12.4	-9.8	-9.3
Japan	Topix	-10.9	-13.5	-4.8	-5.5
Hong Kong	Hang Seng	-9.1	-15.1	-6.7	-5.9
Australia	S&P/ASX 200	-13.5	-16.8	-7.2	-10.6
Bonds	Merrill Lynch Euro over 5 year Govt.	0.6	0.6	0.5	0.5

Global Equities

United States

Overview
In what was its worst week since November 2008, the S&P 500 Index fell over 7% last week, erasing its 2011 gains. This happened amid signs that the economy is stalling and that the cost of borrowing would increase if the country's credit-rating was downgraded.

Earnings – Due to the fears above, financial and economic growth-related stocks led markets lower. Bank of America, Alcoa and Caterpillar were some of the largest fallers, down between 8% and 13%. Of the 500 stocks on the S&P, over 160 fell more than 10% during the week.

Europe

Overview

European markets slumped over 10% during the week as fears surrounding a global economic slowdown were added to the continued debt problems in the region.

Société Générale – The French bank fell 21% last week after it said it may miss its 2012 earnings target. This follows its Q2 profit falling 31% because of a writedown on Greek debt holdings.

Ireland

Overview

The global equity market slump brought the Irish market 11% lower on the week.

Ryanair – In a move that can be seen as an alternative to a dividend payment, the airline bought back 11 million of its shares last week, at a cost of €34 million. It has now bought back nearly €400 million worth in the past three years.

Asia Pacific

Overview

Asian stocks had their biggest fall in almost three years on concern that the global economic recovery is faltering. They also slumped a further 2% this morning as markets reacted to the US downgrade. With the yen strengthening and hurting the export-reliant economy, Japan's government stepped in and sold some of its currency to weaken it against the dollar.

Bonds

Eurozone bonds gained during the week due to their relative safe-haven status. However, Italian and Spanish bonds saw their yields rise to record levels as investors feared that Europe's most indebted nations will find it hard to finance their debt amid slowing economic growth worldwide. The Merrill Lynch >5 year government bond index rose 0.5% last week.

Global Outlook

- Current and forward indicators of economic activity suggest that global growth rates have likely peaked for the moment. Investors are beginning to worry that this is more than a mid-cycle pause and is perhaps something more significant. Inflation has been 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. However, some of these may dissipate if growth moderates further. So far, there are no major countries actively seeking currency strength, a significant indicator that central banks are not yet particularly concerned about inflation.
- Official interest rates remain at emergency levels in the US and investors expect this situation to persist for another 12 months or so; indeed, two-year US rates have just reached a new low. Rates are very low in the eurozone, despite recent increases, and future rate expectations remain contained, with only a small chance of another 0.25% increase before year end. The balancing act facing the ECB is still very 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 and that the next move from the ECB will be to reduce rates.
- Announcement-hyperactivity continues in the EU with the recent EU summit, which failed to assuage concerns about Spain and Italy, being followed by more announcements from the ECB and G7 in the weekend just gone. It is quite likely that the conviction behind all of these decisions will be tested further in the weeks ahead. The US debt ceiling debacle has resulted in a temporary fix that could come back quickly to investors' attention and the downgrade by S&P complicates matters. However, US treasuries are likely to continue to receive flows amid equity market volatility and continued uncertainty in Europe. Overall, it appears that long-term interest rates in the US and Germany remain on a neutral to downward trend and that further falls are likely. More EU action is likely but it remains to be seen whether the peripheral debt crisis has been fully addressed.
- In what has been a volatile year, global equities are down around 10% in euro terms, although the vast bulk of that fall happened last week. Valuations are reasonable but investors are now questioning the path of future corporate profits, given renewed economic growth worries. The consensus expectation for gains during this year has taken a battering in the past few days, although a lot can happen between now and the year-end. For now, we remain concerned that further slow-down concerns have yet to be fully discounted by investors despite recent negative price action. However, in the short-term, markets could pause or rebound given the recent sharp sell-off which has put them into oversold territory.
- Currently, the funds are underweight equities (although less so than last week) and neutral bonds versus the manager average. Within equity sectors, the funds are underweight financials and overweight technology. Geographically, the funds are underweight in Ireland, the UK and Europe, neutral in the US and Japan and overweight in the Pacific region.

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