Zurich Life
Weekly Investment News

ZURICH

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Global Overview

Markets fall
Global equity markets ended the week lower, as ongoing worries over the eurozone region and speculation of a Greek default led to a further deterioration in risk appetite. President Obama's jobs plan failed to give markets a boost and the resignation of Jurgen Stark, a senior ECB official all contributed to a highly volatile week for equities.

Initial jobless claims
Initial claims for jobless benefits rose 2,000 to 414,000 against expectations of a decline to 405,000, raising fears that the US economy has stalled this year.

Central Bank Meetings
As expected, the Bank of England and the European Central Bank both held interest rates unchanged at 0.5% and 1.5% respectively. At the post-meeting press conference, ECB President Jean-Claude Trichet dampened the outlook for interest rate increases, noting that "downside risks" to the region's economy have intensified.

Currencies
The euro came under pressure, falling to a six-month low against the dollar, after the ECB left interest rates unchanged. The €/$ rate ended the week at 1.37, a fall of almost 4%.

Oil & gold
Supply disruptions drove oil prices higher in the early part of last week before falling sharply as eurozone worries flared again. Despite this, the oil price finished the week just above $87 a barrel, a rise of almost 1%. Gold retreated sharply from a record high of over $1,900 an ounce after the Swiss National Bank set a ceiling for the euro/Swiss franc exchange rate of CHF1.20 in an effort to curb the recent strength of its currency and aid exporters. The gold price recovered somewhat as the week progressed, ending at $1,856, a fall of 1%.

	Index	Year to Date Return 31.12.10 to 09.09.11		1 Week Return 02.09.11 to 09.09.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-11.0	-12.0	-2.1	0.0
US	S&P 500	-8.2	-10.4	-1.7	2.0
US	NASDAQ	-7.0	-9.1	-0.5	3.3
Europe	FT/S&P Europe Ex. U.K.	-21.8	-21.8	-5.6	-5.6
Ireland	ISEQ	-15.3	-15.3	-3.1	-3.1
UK	FTSE 100	-11.6	-12.1	-1.5	0.2
Japan	Topix	-15.9	-13.8	-1.8	1.1
Hong Kong	Hang Seng	-13.8	-16.0	-1.7	1.9
Australia	S&P/ASX 200	-11.6	-11.8	-1.1	0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	5.2	5.2	0.9	0.9

Global Equities

United States

Overview
US stocks fell last week after President Obama's jobs plan failed to stimulate markets along with worries that a default by Greece is now becoming more likely, weighed heavily on investor sentiment. US President Barack Obama unveiled a larger-than-expected $450 billion package of tax cuts and spending plans aimed at creating jobs and bolstering the economy.

Banking stocks – US national banks fell last week on fears of exposure to Europe and a stalling recovery. Bank of America, Citigroup and JP Morgan all ended the week significantly lower.

Europe

Overview

European markets suffered heavy losses of almost 6% over the week, due to a downward revision to ECB growth forecasts combined with ongoing worries about eurozone debt problems.

French banks – The French banking sector tumbled last week, on concerns about their peripheral European asset exposures and rising short term funding costs. BNP Paribas, Crédit Agricole and Société Générale share prices fell 11%, 13% and 21% respectively over the week.

Ireland

Overview

The Irish market ended the week over 3% lower, in line with the rest of the world.

Kerry Foods – The food group Kerry has announced that it has agreed to buy German firm SuCrest for an undisclosed sum. This deal will expand its sweet ingredient and flavours business across European, Middle Eastern and African markets.

Asia Pacific

Overview

Asian stocks ended the week lower amid concern that the global economic recovery is faltering. Chinese industrial production came in below expectations, decelerating to 13.5% in August from 14% in July. Within the numbers, auto production picked up but output remains subdued compared with one year earlier as car subsidies and incentives fade. Separately, Chinese inflation numbers showed initial signs of peaking, falling from 6.5% in July to 6.2% in August.

Bonds

Concerns that Europe's debt crisis is deepening as growth slows along with rumours of a Greek debt default triggered a move from peripheral (Greek, Spanish, Italian and Portuguese) debt into safe haven assets such as German, Dutch and Finnish government bonds. German 2 and 10 year bond yields declined to an all-time low after the ECB acknowledged the euro region economic outlook has worsened. Overall, the Merrill Lynch over 5 year government bond index gained 0.9% on the week.

Global Outlook

- Indicators of economic activity suggest that global growth rates have peaked for now. Investors are concerned that this is a 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 have been some shared global concerns, such as energy and food prices; however, some of these should dissipate if growth moderates further. Additionally, there are no major countries actively seeking currency strength - the opposite is the case if anything - a key indicator that policymakers are not concerned about inflation.
- Short-term interest rates remain at emergency levels in the US and the Fed has recently committed to these levels for another two years. Rates will likely be cut soon in the eurozone, validating the view that this year's hikes were premature - and more easing should be expected globally in the midst of the growth slowdown and financial market stresses.
- The ECB buying of Italian and Spanish bonds had some initial positive impact but stresses re-emerged quickly due to worries over the ECB's commitment to the programme, worries validated by last week's resignation of its chief economist. A sense of panic pervades the eurozone bond markets at the moment, with investors impatiently waiting for the next anticipated development – a jointly guaranteed eurobond – but it is unclear whether this is politically possible and the situation is very fluid. An imminent Greek default is also a significant concern. German and US bond yields are making new lows amid a global flight to large developed bond markets (excluding the eurozone peripheral markets). While yields could rise in the near term if equities recover some of their losses, long-term interest rates could stay very low for a further considerable period of time.
- In what has been a volatile year, global equities are down around 12% in euro terms, the vast bulk of that fall happened in the past few weeks. Valuations are reasonable but investors are now questioning the path of future corporate profits, given renewed economic growth worries. Investors are also incorporating risks with regard to fiscal sustainability, default in the eurozone and even the future of the euro itself. We remain concerned that further slow-down concerns have yet to be fully discounted by investors despite recent negative price action. In the immediate term, there is a sense that investors have lost faith in the ability of policymakers in the US and Europe to control events; further falls are quite possible if investors remain in this mindset. Currently, the only offset to this factor is that sentiment is very negative, often a time at which markets (temporarily) bottom.
- Currently, the funds are closer to neutral in equities and slightly overweight bonds versus the manager average. Within equity sectors the funds remain underweight financials and overweight technology. Geographically, the funds are underweight in Ireland, the UK and Europe, neutral in Japan and overweight in the US and in the Pacific region.

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