Zurich Life
Weekly Investment News

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Global Overview

Markets retreat

Global worries, including US economic growth and the eurozone's debt crisis, both of which have not showed any signs of improvement, resulted in equities erasing some of their previous week's gains.

Operation Twist

At its latest meeting, the Federal Reserve announced plans to drive down long-term interest rates in order to try to help the struggling economy. In its latest attempt to stimulate the economy, the Fed launched "Operation Twist", which will see it replacing $400 billion of short-term debt with longer-term treasuries. At the same meeting, the Fed said that 'there are significant downside risks to the economic outlook, including strains in global financial markets'.

Italy

A surprise downgrade of Italy by Standard and Poor's added to concerns of contagion in the debt-stressed eurozone. S&P downgraded its ratings on Italy by one notch to A/A-1 and kept its outlook on negative.

Currencies

The relative safety of the dollar and yen helped them rally during the week. This follows the Fed saying it saw significant downside risks to the economy and Greece continued to struggle to avoid default, spurring demand for safer currencies. The €/$ rate ended the week at 1.35, a fall of over 2%.

Oil & gold

The main commodity index, the S&P GSCI, which includes oil, metals, gold and food stuffs, fell to a nine-month low as investors fear that governments are running out of tools to avert a global recession. The West Texas oil price ended the week almost 9% lower at $80 a barrel. The gold price fell 9% on the week, including its biggest two-day plunge since 1983.

	Index	Year to Date Return 31.12.10 to 23.09.11		1 Week Return 16.09.11 to 23.09.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-13.6	-14.6	-6.0	-5.6
US	S&P 500	-9.6	-10.3	-6.5	-4.3
US	NASDAQ	-6.4	-7.1	-5.3	-3.0
Europe	FT/S&P Europe Ex. U.K.	-24.6	-24.6	-6.3	-6.3
Ireland	ISEQ	-16.6	-16.6	-3.7	-3.7
UK	FTSE 100	-14.1	-15.6	-5.6	-5.5
Japan	Topix	-17.2	-12.7	-3.1	-0.1
Hong Kong	Hang Seng	-23.3	-24.2	-9.2	-7.1
Australia	S&P/ASX 200	-17.7	-22.0	-5.9	-9.2
Bonds	Merrill Lynch Euro over 5 year Govt.	5.5	5.5	0.5	0.5

Global Equities

United States

Overview

US equities only managed to gain on one day last week, that being Friday. Even though the Fed announced its latest plan to try to stimulate the economy, its negative outlook on the state of the economy caused markets to fall.

Banking index – The KBW Bank Index fell heavily after Bank of America and Wells Fargo & Co had their long-term credit ratings downgraded by Moody's Investors Service. Bank of America fell 13%, while Wells Fargo was down 5%.

Europe

Overview

European markets fell as investors feared that policy makers will be unable to solve the debt crisis.

Logitech – The company cut its sales and operating profit forecasts for the second time in two months, resulting in its shares slumping 17%, the most since January 2009.

Ireland

Overview

The Irish market ended the week outperforming European markets by 3%, helped by the second-largest stock, Ryanair, rising sharply.

Ryanair – The airline stock rallied 7% last week, with all of the gain coming on Friday as oil prices fell to a six-week low.

Asia Pacific

Overview

Asian markets declined for the third consecutive week amid intensifying fears that the global economy is headed for a recession. The MSCI Asia Pacific ex-Japan Index fell 10% during the week, taking its losses since May 2nd to more than 20%, leading it into a bear market for the first time in more than two years.

Bonds

German bund prices rose to new record highs as investors looked for the relative safety of bonds, with the outlook for many eurozone countries remaining uncertain. The yield on the German 10-year bund is now at 1.75%. The Merrill Lynch over 5 year government bond index ended the week 0.5% higher.

Global Outlook

- Indicators of economic activity suggest that global growth rates have peaked for now. Investors are concerned 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 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 the recent resignation of its (German) chief economist. A sense of extreme nervousness pervades the eurozone bond markets at the moment. The situation is very fluid with the prospect of a Greek default being a major concern. To date all of the various measures announced have not solved the problem, and it remains to be seen how politically feasible some of the proposed "solutions" are. 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 15% in euro terms, the vast bulk of that fall happening since July. Valuations may be reasonable but investors are now questioning the path of future corporate profits, given renewed economic growth worries; worries over bank funding costs and banks' exposures to peripheral government debt also loom large. 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 is that sentiment is very negative, often a time at which markets temporarily bottom – and some further policy action could assuage near-term nervousness.
- Currently, the funds are closer to neutral in equities and 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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