

Global Overview

Mixed Week

It was a mixed week for global equities. Fears that eurozone policy makers will be unable to contain the debt crisis eased, but Greece remains unlikely to meet its budget deficit reduction targets for payment of its latest €8 billion loan, and this weighed on markets.

Eurozone action

Germany's lower house of parliament voted for, and approved, the expansion of the European Financial Stability Facility from €123 billion to €211 billion of guarantees.

US data

GDP in the US for Q2 was revised upwards from the previously announced annual rate of 1% to 1.3%. Jobless claims last week showed a significant drop, back to levels not seen in over six months, while consumer confidence also rose as pessimism about the economy eased.

Credit rating

New Zealand became the latest country to lose its AAA status. S&P joined Fitch in downgrading the country's long-term local currency rating from AAA to AA+.

Currencies

Amid indications that the global economy is slowing, the relative safety of the dollar and yen helped them gain during the week. The €/£ rate ended the week at 1.34, a marginal fall over the week.

Oil & gold

Following poor data from China and the on-going uncertainty of the eurozone debt crisis, oil fell during the week. This capped the largest quarterly drop since the global crisis in 2008. The West Texas oil price ended the week almost 1% lower, going below the \$80 a barrel mark. The gold price fell 1.5% over the week.

	Index	Year to Date Return 31.12.10 to 30.09.11		1 Week Return 23.09.11 to 30.09.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-12.3	-12.9	1.4	2.0
US	S&P 500	-10.0	-10.6	-0.4	-0.3
US	NASDAQ	-9.0	-9.5	-2.7	-2.6
Europe	FT/S&P Europe Ex. U.K.	-20.5	-20.5	5.4	5.4
Ireland	ISEQ	-13.2	-13.2	4.1	4.1
UK	FTSE 100	-13.1	-13.3	1.2	2.7
Japan	Topix	-15.3	-11.4	2.2	1.5
Hong Kong	Hang Seng	-23.6	-24.2	-0.4	-0.1
Australia	S&P/ASX 200	-15.5	-20.2	2.7	2.3
Bonds	Merrill Lynch Euro over 5 year Govt.	5.3	5.3	-0.2	-0.2

Global Equities



United States

Overview

US equities finished the week lower as stocks recorded their worst quarter in over three years. Last week's falls came despite some improved economic data, with investors choosing to focus on the ongoing issues in the US and eurozone.

Technology stocks – The NASDAQ fell heavily last week as tech stocks struggled. These included Micron Tech, which reported an unexpected loss, and Advanced Micro Devices, which cut its sales forecast.



Europe

Overview

European markets posted large weekly gains, helped by Germany's backing for the expansion of the EFSF on Thursday.

Stocks – Banking stocks were among the strongest performers on hopes that European governments will produce a grand plan to contain the debt crisis. Société Générale and BNP Paribas both recovered some of their recent losses, with gains of 20% and 19% respectively.



Ireland

Overview

The Irish market followed the rest of Europe higher, gaining 4% over the week.

Aer Lingus – Ahead of an investor day, the airline released a trading update pointing to improved passenger numbers and higher yearly profits. Its shares rallied 6% over the week.



Asia Pacific

Overview

Most Asian markets gained as speculation increased that the eurozone will be able to stem its debt crisis. However, Chinese manufacturing activity disappointed when it fell for the third month running, as new orders and export demand declined. Chinese related stocks also continued to suffer on worries over the sustainability of non-bank financing and falling volumes in the Chinese property market.

Bonds

German bund prices rose towards the end of the week following renewed worries about Greek default and disappointing data, including retail sales data in the region, paring what would have been the biggest weekly decline in three months. The yield on the German 10-year bund is now at 1.9%. The Merrill Lynch over 5 year government bond index ended the week 0.2% lower.

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 have bounced from extremely low levels as politicians have made efforts to convince investors that they will tackle the eurozone debt crisis in a meaningful manner. 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 13% 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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