Zurich Life
Weekly Investment News

ZURICH

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Global Overview

Equity markets rally
Despite further sovereign and bank downgrades along with mixed economic data releases, equity markets enjoyed a second week of strong gains as eurozone policymakers appeared to move towards resolving the region's debt crisis. Over the weekend, German Chancellor Angela Merkel and French President Nicolas Sarkozy announced they were close to agreeing a comprehensive new package to ease the crisis.

Mixed US data
US retail sales rose at a faster-than-expected pace of 1.1% in September, making it the largest gain in seven months. However, the University of Michigan preliminary index of consumer sentiment unexpectedly disappointed.

US Federal Reserve minutes
The latest policy meeting minutes revealed that the Federal Reserve considered a new round of quantitative easing at its September meeting, suggesting that QE3 is still possible if the economy weakens further.

Standard & Poor's rating agency
Ratings agency, Standard & Poor's downgraded Spain's sovereign credit-rating by one notch from AA to AA –, following downgrades to the nation's banking sector.

Eurozone inflation
Eurozone inflation jumped to 3% in September, compared to 2.5% in August. This comes in well above the target rate favoured by the European Central Bank for price stability.

Currencies & oil
In currency markets, the euro gained strongly against the dollar, after leaders of France and Germany pledged to announce measures to stabilise the eurozone debt crisis. The €/$ rate ended the week at 1.38, a gain of over 3%. The oil price received a boost of better-than-expected US data and the West Texas oil price ended the week 5% higher, at $87 a barrel.

	Index	Year to Date Return 31.12.10 to 14.10.11		1 Week Return 07.10.11 to 14.10.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-7.0	-9.5	4.4	2.5
US	S&P 500	-2.6	-6.0	6.0	2.5
US	NASDAQ	0.6	-2.9	7.6	4.1
Europe	FT/S&P Europe Ex. U.K.	-15.7	-15.7	3.6	3.6
Ireland	ISEQ	-9.7	-9.7	1.6	1.6
UK	FTSE 100	-7.3	-9.4	3.1	1.2
Japan	Topix	-16.7	-15.6	1.0	-3.0
Hong Kong	Hang Seng	-19.7	-22.5	4.5	1.1
Australia	S&P/ASX 200	-11.4	-13.9	1.0	3.1
Bonds	Merrill Lynch Euro over 5 year Govt.	2.2	2.2	-2.2	-2.2

Global Equities

United States

Overview
US equities registered large gains last week, as investors turned more optimistic about the outlook for the eurozone and the start of the third-quarter earnings season. In particular, the S&P 500 index rose by 3.4% last Monday, the largest one-day jump since August. The S&P 500 index ended the week 6% higher.

Earnings results – The largest US aluminium producer, Alcoa, kicked-off earning season with revenue topping forecasts, however, earnings fell short of analyst expectations. Elsewhere, Google reported better-than-expected earnings with net income rising to $3.2 billion boosted by online advertising revenue, from $2.5 billion from a year ago. The share price gained almost 15% on the week.

Europe

Overview

European equities rallied almost 4% last week, on the hope that eurozone leaders are moving towards a resolution to the sovereign debt crisis.

SAP – The German software company reported stronger-than-expected results for Q3. The shares rallied over 5% on the week.

Ireland

Overview

The Irish market followed global equity markets higher, registering a 2% gain over the week.

Bank of Ireland – The bank announced the issue of €1.1 billion of secured debt, taking the bank's total unguaranteed issuance to €4 billion. In other news, Moody's downgraded the bank's UK deposit rating.

Asia Pacific

Overview

Asian markets rallied strongly last week, with Hong Kong's Hang Seng gaining almost 5%, amid increased optimism that a European solution is close to being announced. China's consumer price inflation figure came in at 6.1% in September compared with 6.2% in August, well down from July's three-year high of 6.5%. The Bank of Korea left interest rates unchanged while, Bank Indonesia surprised markets by cutting interest rates by 25 basis points to 6.5%.

Bonds

Eurozone bond markets fell heavily on the back of better-than-expected US economic data figures and amid speculation that European leaders may be moving closer to a resolution on the debt crisis. Italian bond spreads remained under pressure on the back of a one notch downgrade by Fitch to A+, with the 10-year yield rising 27 basis points to 5.77%. Merrill Lynch over 5 year government bond index ended the week 2.2% lower.

Global Outlook

- Indicators of economic activity suggest that global growth rates have peaked for now although some of the recent data are better-than-expected. Investors remain concerned that this is a more than a mid-cycle pause and that it could be 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. No major countries are actively seeking currency strength – the opposite is the case if anything, a key indicator that policymakers are not overly 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. The next move from the ECB will likely be a cut, validating the view that this year's hikes were premature - and more easing can be expected globally in the midst of the growth slowdown and financial market stresses.
- Most of the peripheral bond markets in the eurozone remain quite stressed. The situation is very fluid with the prospect of a Greek default being a major concern. Markets have begun to anticipate another grand plan which will finally solve the situation. This continues to be an extremely difficult aspiration given the positions adopted by key players such as the ECB and some of the eurozone governments. German and US bond yields continue to be extremely low despite the recent rally in risk assets. While yields could rise in the near term if equities recover even further, long-term interest rates are as likely to stay very low for a further considerable period of time.
- In what has been a volatile year, global equities are down around 10% in euro terms. Valuations are reasonable but investors have been 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. Those worries have been eased in the last two weeks as eurozone governments prepare a plan for solving the debt crisis; concerns that policymakers had lost control over the situation have thus dissipated somewhat. However the recent recovery in equities may have been fuelled as much by excessive negative sentiment and positioning as anything more fundamental. The situation remains difficult and volatility could easily return.
- The funds are now slightly underweight equities and overweight bonds versus the manager average. Within equity sectors the funds remain underweight financials and overweight technology. Geographically, the funds are underweight in Ireland and the UK, neutral in Europe, Japan and the Pacific region and slightly overweight in the US.

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