Zurich Life
Weekly Investment News

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Global Overview

Equity markets rise

Most equity markets rose for yet another week amid optimism that Europe's leaders are close to announcing a plan to contain the debt crisis and upbeat earnings data.

European debt crisis

French President Nicolas Sarkozy and German Chancellor Angela Merkel met prior to a summit which continues until Wednesday of this week. It is expected that following these meetings they will finalise, what they call, a "comprehensive" plan to deal with the eurozone's debt crisis.

Greece

European finance ministers approved a €5.8 billion loan to Greece from the bailout fund approved last year.

China

Data from the world's second-largest economy showed that it expanded at an annual pace of 9.1% in Q3, its slowest pace since 2009.

Federal Reserve

Members of the Federal Reserve said that a third round of large-scale asset purchases "might become appropriate if evolving economic conditions called for significantly greater monetary accommodation". This comes even as economic indicators continue to show improvement.

Currencies & oil

In currency markets, the dollar fell against most major currencies on speculation that Europe is close to resolving its crisis and speculation the Fed may move to introduce further monetary easing. The €/$ rate ended the week just below 1.39. Against the yen, the dollar dropped to a post-World War II low. The oil price rose towards the end of the week on an improved economic outlook. The West Texas oil price gained slightly to $87 a barrel over the week.

	Index	Year to Date Return 31.12.10 to 21.10.11		1 Week Return 14.10.11 to 21.10.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-6.7	-9.2	0.3	0.3
US	S&P 500	-1.5	-5.0	1.1	1.1
US	NASDAQ	-0.6	-4.1	-1.1	-1.2
Europe	FT/S&P Europe Ex. U.K.	-15.9	-15.9	-0.2	-0.2
Ireland	ISEQ	-8.9	-8.9	1.0	1.0
UK	FTSE 100	-7.0	-8.3	0.4	1.2
Japan	Topix	-17.2	-14.9	-0.6	0.8
Hong Kong	Hang Seng	-21.7	-24.6	-2.6	-2.7
Australia	S&P/ASX 200	-12.7	-15.0	-1.5	-1.3
Bonds	Merrill Lynch Euro over 5 year Govt.	2.1	2.1	-0.1	-0.1

Global Equities

United States

Overview

The S&P 500 Index rose for the third-successive week, for the first time since February, and reached levels not seen since August 3rd, just prior to the sharp losses experienced worldwide. Optimism about the eurozone debt crisis and the possibility of further quantitative easing, along with upbeat earnings data, drove markets higher.

Earnings – 74% of companies on the S&P 500 Index that have reported so far have announced expectations-beating earnings. JP Morgan recorded its fourth consecutive quarter of profits, leading shares higher, but Apple saw its shares slide 7% after it missed analysts' sales expectations for the first time since 2004.

Europe

Overview

European equities rose for the fourth-successive week, the longest streak in almost 11 months, as investors speculated that European leaders will announce a solution to the region's debt crisis when meetings finish this Wednesday.

Banking stocks – The sector was one of the best performers towards the end of the week on expectations of a positive outcome from the ongoing eurozone meetings. Further to this, investors' expectations of the size of the recapitalisation amount required for the sector, reduced over the week.

Ireland

Overview

The Irish market followed global equity markets higher, adding 1% over the week. Positive home-building data from the US boosted sentiment for the construction sector and, the largest stock, CRH gained 1% on the back of this.

Asia Pacific

Overview

Asian markets experienced some weakness, as Chinese growth slowed and investors remained cautious ahead of the eurozone meetings which took place over the weekend. These losses were reversed in Monday's trading though, with the Hang Seng and Topix rising 4% and 1.5% respectively.

Bonds

Eurozone bond markets fell as investors continue to favour risk assets. However, losses were pared on concern that European leaders are struggling to agree on a permanent solution to the eurozone's crisis. French bond spreads are at their widest since 1992 versus German bunds as worries remain that its AAA credit rating is under pressure. The Merrill Lynch over 5 year government bond index ended the week 0.1% lower.

Global Outlook

- Indicators of economic activity suggest that global growth rates have peaked for now although some of the recent data have been better than expected. Investors remain concerned that this is 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. Policymakers are now promising 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 9% 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, Japan, the UK and Europe, neutral in the Pacific region and overweight in the US.

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