

28th November 2011

Global Overview

Equity markets extend losses

Global equity markets suffered further large falls last week as mixed data releases, further rating downgrades and ongoing worries of contagion across the eurozone weighed heavily on investor sentiment.

US retail sales

US retail sales during the Thanksgiving weekend totalled \$52.4 billion, an increase of 16% from one year earlier. Elsewhere, US Q3 2011 GDP was revised to 2%, from 2.5% previously.

German business confidence

The latest Ifo survey posted an unexpected rise in German business confidence. In other news, first estimate Q3 GDP for Europe's largest economy was confirmed at 0.5%.

Italian bond yields

Italy raised its targeted €10 billion in its latest auction but at sharply higher yields. Yields on its three-year debt peaked at 8.13% as Italian debt traded deeper into territory typically associated with weaker peripheral economies.

Credit rating

Fitch Ratings matched Moody's move in July to place Portugal in junk territory, lowering its rating one notch from BBB- to BB+, warning that further downgrades are possible.

Currencies

In currency markets, the euro remained under pressure against the dollar as sentiment around the eurozone deteriorated significantly. The €/ \$ rate finished the week at 1.32, a fall of 2%. However, the euro rose 0.2% against sterling with the UK currency coming under increasing pressure, amid speculation that the Bank of England would announce further quantitative easing in the months ahead.

Oil

Oil prices fell with the the West Texas oil price slipping almost 1%, to finish the week at just under \$97 a barrel.

	Index	Year to Date Return 31.12.10 to 25.11.11		1 Week Return 18.11.11 to 25.11.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-12.1	-12.2	-4.2	-3.4
US	S&P 500	-7.9	-7.0	-4.7	-2.7
US	NASDAQ	-8.0	-7.1	-5.1	-3.1
Europe	FT/S&P Europe Ex. U.K.	-23.4	-23.4	-5.1	-5.1
Ireland	ISEQ	-12.6	-12.6	-3.3	-3.3
UK	FTSE 100	-12.5	-12.5	-3.7	-3.9
Japan	Topix	-21.4	-17.1	-1.9	-0.8
Hong Kong	Hang Seng	-23.2	-22.7	-4.3	-2.5
Australia	S&P/ASX 200	-16.0	-19.6	-4.6	-5.8
Bonds	Merrill Lynch Euro over 5 year Govt.	-3.3	-3.3	-2.8	-2.8

Global Equities



United States

Overview

The S&P 500 index fell 4.7% over the week as investors continued to react nervously to the European sovereign debt crisis and the collapse of the US budget deficit talks

Energy & Financials – The week's declines were led by energy groups, which slid over 6%, as Brent crude oil dropped to its lowest level since October. The financial sector was another of the main fallers (declining 5.3%) as the Federal Reserve announced plans to restart stress tests of US banks.



Europe

Overview

European equities extended their 2011 losses, ending the week 5% lower (with Germany's DAX falling over 5%), as investors feared that policymakers will be unable to solve the debt crisis. On the political front, discussions between the leaders of Germany, France and Italy were ongoing, with so far little agreement reached.

Thomas Cook – The UK holiday firm saw its shares slump by 53% last week (falling as much as 75% on just one trading day) amid fears of an imminent collapse due to a deteriorating trading environment over recent months.



Ireland

Overview

The Irish market tracked the rest of Europe lower during the week.

Aryzta – The bakery company announced that food sales grew by 9.6% in Q1 2011, with acquisitions across Britain and Canada, and price increases helping to compensate for weaker consumer spending.



Asia Pacific

Overview

Asian markets suffered heavy losses on the week, with the Hong Kong Hang Seng index along and the Australian market both retreating by over 4%. China's latest Purchasing Managers' index for manufacturing slowed to a 32-month low in November, raising concern about a broader global economic slowdown. Japanese equities fell 2% on the week to almost reach their lowest levels since March 2009, on the back of poor economic data releases and the IMF's warnings about the country's debt level.

Bonds

A fresh warning that France risks losing its prestigious AAA credit-rating, combined with disappointing bond auctions in Germany and Italy, resulted in bond markets struggling last week. Early in the week, Germany failed to raise as much money as it hoped in its latest bond auction, a sign that Europe's largest economy may not be immune from the eurozone's debt crisis. Investors only took about €3.9 billion out of the total offer of €6 billion. Elsewhere, yields on short-term Italian bonds rose above 8% in another poorly received bond auction on Friday. The Merrill Lynch over 5 year government bond index ended the week 2.8% lower.

Global Outlook

- Economic growth globally has probably peaked for now although some of the recent US data has been better than expected. Investors remain concerned that we are experiencing more than just a mid-cycle pause in the global economy; another looming recession in Europe feeds that concern. 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. As before, no major countries are seeking currency strength - the opposite is the case if anything - and this is a key indicator that policymakers are not overly concerned about inflation.
- Short-term interest rates continue at emergency levels in the US and the Fed has recently committed to these levels until well into 2013. Globally central banks are either neutral in their stance or have embarked on more easing measures. The next move from the ECB will likely be another cut, validating the view that this year's hikes were premature.
- Most of the peripheral eurozone bond markets remain quite stressed. The recently published "grand plan" fell short of investors' expectations and the focus has switched to the next significant meeting on 9th December. In the meantime, even German bond yields have risen by 0.7% as investors focus on the possibility of Germany's credit being further diluted within the context of a new grand plan for the eurozone's debt crisis. Overall, it continues to be an extremely difficult situation in which an ultimately benign outcome is far from a given, even though the political and economic stakes continue to rise. The general global backdrop, however, suggests that long-term interest rates are likely to 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. Valuations may be reasonable but investors are downgrading future corporate profits, given renewed economic growth worries and a risk premium for further eurozone debt risks. The October equity rally was reversed very easily, and we are now not that far from the bottom of this year's ranges. There may be some support offered around current levels, but conviction levels are low and more volatility is quite possible before some more benign conditions return.
- The funds are underweight equities and overweight bonds versus the manager average. Within equity sectors the funds remain underweight financials and industrials and overweight technology. Geographically, the funds are underweight in Ireland, Japan, the UK and Europe, and are neutral in the Pacific region and in the US.

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