Zurich Life
Weekly Investment News

12th December 2011

ZURICH

Global Overview

Equity markets mixed
The eurozone debt crisis dominated market sentiment last week, resulting in equities losing ground in the early stages of the week. Most markets received a boost on Friday, following agreement between eurozone leaders and delivered mixed returns over the week.

US economic data
The US trade deficit shrank sharply in October to its lowest level of the year. Elsewhere, the University of Michigan preliminary December reading on consumer confidence climbed for a fourth consecutive month.

Central Bank Meetings
The European Central Bank met market expectations, cutting interest rates by 25 basis points to 1%. ECB President Dragi also announced the putting in place of "non-standard measures" aimed at easing the supply of credit to financial institutions. Elsewhere, the Bank of England's Monetary Policy Committee held interest rates steady at 0.5%, as expected.

Moody downgrades
Ratings agency Moody's downgraded the debt of three leading French banks, BNP Paribas, Credit Agricole (both by one notch to Aa3) and Société Générale (by one notch to A1).

German growth forecast
In their most recent forecast, the German Bundesbank forecast that the eurozone's largest economy will expand by just 0.6% next year.

Currencies
In currency markets, the euro ended the week marginally lower, despite a deal last week among European governments to work towards closer fiscal union. The €/$ rate finished the week at 1.34, relatively unchanged.

Oil & commodities
The West Texas oil price fell almost 2% amid deepening concern over prospects for the eurozone, to finish the week at $99 a barrel.

	Index	Year to Date Return 31.12.10 to 09.12.11		1 Week Return 02.12.11 to 09.12.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-5.6	-5.7	0.0	0.3
US	S&P 500	-0.2	-0.2	0.9	1.1
US	NASDAQ	-0.2	-0.3	0.8	0.9
Europe	FT/S&P Europe Ex. U.K.	-16.3	-16.3	-0.2	-0.2
Ireland	ISEQ	-5.0	-5.0	0.8	0.8
UK	FTSE 100	-6.3	-6.0	-0.4	0.1
Japan	Topix	-17.9	-14.1	-0.8	-0.2
Hong Kong	Hang Seng	-19.3	-19.4	-2.4	-2.4
Australia	S&P/ASX 200	-11.4	-11.7	-2.0	-2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	1.3	1.3	0.6	0.6

Global Equities

United States

Overview
Despite a choppy trading environment, the S&P 500 index ended almost 1% higher on the week. Markets received a boost on Friday, after an agreement between eurozone leaders on additional measures to tackle the region's debt crisis.

Costco Wholesale – The company posted a higher quarterly profit, while revenue increased by 12.5% to $21.6 billion, driven by higher gasoline prices and benefits of foreign exchange.

Europe

Overview

European markets endured a volatile week, falling on Thursday as investors digested the outcome of an ECB meeting and the results of stress tests on the banking sector. However, on Friday markets performed strongly with eurozone leaders announcing an agreement and new fiscal rules.

Commerzbank – Shares in Germany's second-largest bank dropped by almost 12% over the week, after a report suggested that Germany is prepared to nationalise the bank, if required. The German government already has a 25% stake in the bank and could be forced to reactivate a rescue fund and buy shares if the bank cannot raise money by June 2012.

Ireland

Overview

The Irish market ended the week almost 1% higher, in line with the rest of the world.

Asia Pacific

Overview

Asian stocks ended the week lower with the Hong Kong Hang Seng Index shedding over 2% over the week. Consumer prices in China rose by 4.2% on the year to November, down sharply from October's annual inflation rate of 5.5%. Elsewhere, Japan announced that its economy grew at a slower pace of 5.6% (annualised) in the third quarter versus the previously estimated 6%.

Bonds

Overall, bonds performed well over the week, with German bunds, in particular, seeing good demand due to its safe haven status. ECB President Dragi's comments that the Central Bank will not step up government bond purchases in return for political leaders reaching a deal on austerity measures, resulted in a spike in ten-year Italian bond yields. However, some of these losses were later recovered, following an agreement by 26 of the 27 European Union leaders to pursue stricter budget rules for the single currency area to help tackle the crisis. The Merrill Lynch over 5 year government bond index ended the week 0.6% higher.

Global Outlook

- Economic growth globally has peaked for now and we have seen a wave of lower official, and non-official, 2012 growth forecasts in recent weeks. Even though some of the more recent data in the US have been ok, investors are focusing on another looming recession in Europe and downside risks to growth elsewhere. For most of this year inflation has been more of a regional concern for investors – particularly in some Asian countries - but there have been some shared global concerns, such as energy and food prices; but all of the indications are that these are dissipating. 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 remain at emergency levels in the US and the Fed has affirmed its promise to keep these levels until well into 2013. Indeed, globally central banks are either neutral in their stance or have embarked on more easing measures. The ECB will likely follow up last week's cut with another cut in or before March 2012 and low rates will be maintained by them also for some time.
- Peripheral and some of the other eurozone bond markets remain stressed. The weekend's EU summit was a disappointment, which produced only modest proposals. The Austrian Finance Minister put it succinctly when he said that "the decisions do not have enough firepower to have a sustainable effect". Volatility is likely to remain and it continues to be an extremely difficult situation in which an ultimately benign outcome is far from a given. The general global backdrop is still disinflationary for now, and this suggests that long-term interest rates in the US, Japan, UK and Germany 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 6% 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. Markets are likely to remain volatile and this could be exaggerated by thinner December trading conditions. Most equity investors are expecting a benign resolution of the eurozone crisis that would set the stage for a strong rally but that may remain elusive. In the immediate term, it is more likely that markets give up recent gains than rally hard from here.
- 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, neutral in the Pacific region and slightly overweight in the US.

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