Zurich Life
Weekly Investment News

19th December 2011

ZURICH

Global Overview

Equity markets fall
Equity markets fell on further concerns over the eurozone's ability to contain its debt crisis. A weakening of the euro against most major currencies helped pare the eurozone investor's losses.

Federal Reserve
At its latest meeting, the Fed reiterated its pledge to keep interest rates low until mid-2013, but disappointed markets by not announcing any additional stimulus measures.

Credit ratings
Citing Europe's failure to find a "comprehensive solution" to its debt worries, Fitch cut France's credit rating and put the grades of six other countries, including Spain and Italy, on a 'rating watch negative'.

US economic data
Last week, jobless claims fell to the lowest since May 2008 and two manufacturing indices showed that the New York and Philadelphia regions expanded recently. All three of these reports were better-than-expected.

Italian austerity budget
Mario Monti, Italy's new Prime Minister, won a vote passing the latest stage of the country's €30 billion emergency budget. It now progresses to the final vote next week.

Currencies
In currency markets, the euro fell against the dollar by the most in more than three months, leading it to an 11-month low. Investors are still concerned the region's leaders will be unable to contain the debt crisis in the region. The €/$ rate finished the week at 1.30, a fall of 2.7%.

Oil & commodities
The West Texas oil price fell almost 6% on concern that the eurozone's problems will curb demand for oil. It finished the week at $94 a barrel.

	Index	Year to Date Return 31.12.10 to 16.12.11		1 Week Return 09.12.11 to 16.12.11	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	-8.3	-6.7	-2.8	-1.1
US	S&P 500	-3.0	-0.4	-2.8	-0.2
US	NASDAQ	-3.7	-1.1	-3.5	-0.8
Europe	FT/S&P Europe Ex. U.K.	-19.6	-19.6	-4.0	-4.0
Ireland	ISEQ	-5.5	-5.5	-0.5	-0.5
UK	FTSE 100	-8.7	-6.7	-2.6	-0.8
Japan	Topix	-19.5	-13.7	-2.0	0.5
Hong Kong	Hang Seng	-20.6	-18.6	-1.6	1.1
Australia	S&P/ASX 200	-12.3	-12.4	-1.0	-0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	3.3	3.3	2.0	2.0

Global Equities

United States

Overview
The eurozone crisis and the Fed's comments in the Federal Open Market Committee's minutes to not add further stimulus measures contributed to the S&P 500 index retreating last week. However, upbeat economic data late in the week helped markets pare their losses.

Technology sector – The technology sector was one of the weakest over the week, after Intel cut its Q4 revenue forecast, while Research In Motion slumped 18% after delaying the release of its next generation BlackBerry.

Europe

Overview

Eurozone markets fell for another week amid further credit-rating cuts for some of the region's countries.

Banking sector – BNP Paribas, Société Générale and HSBC, the region's largest lender, fell again last week as concern grows about their sovereign-bond holdings.

Ireland

Overview

The Irish market was one of the better performers last week, but still finished marginally lower overall.

Paddy Power – The bookmaker announced that it would be providing risk management services to the Canadian Lottery's sports betting division. Its shares were relatively unchanged over the week.

Asia Pacific

Overview

Asian stocks fell for the sixth week in seven on signs that growth in China and Japan is slowing. Reports showed that Chinese manufacturing may contract for a second month, while a Bank of Japan survey showed sentiment among the nation's largest manufacturers had deteriorated.

Bonds

Helped by Spanish bonds rising, eurozone bonds finished the week higher. Spanish bonds got a boost after it sold almost double its maximum target of bonds at an auction, while Italy was helped by the passing of the latest stage of its budget approval process. The Merrill Lynch over 5 year government bond index ended the week 2% higher.

Global Outlook

- Economic growth globally has peaked for now and we have seen a wave of lower 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. While a resurgence in commodity prices could add to upside inflation risks next year, it is otherwise likely that inflation pressures should remain modest. As before, no major countries are seeking currency strength – the opposite remains the case, if anything– and this is 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 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 its recent rate reduction with another cut in or before March 2012 and low rates will be maintained by it also for some time.
- Peripheral and some of the other eurozone bond markets remain stressed and the most recent EU summit was insufficient to assuage the concerns of bond investors. The Austrian Finance Minister put it succinctly when he said that "the decisions don't have enough firepower to have a sustainable effect". Volatility is likely to remain and 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 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 7% 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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