

Global Overview

Equity markets start the year on a positive note

Equity markets rose in the first week of 2012 as economic data from America to China reflected further improvement in the global economy. However, worries in the eurozone remain despite successful bond auctions.

US payrolls

Payrolls in the US rose by 200,000 in December, double November's increase. This, along with slowly reducing jobless claims, helped the unemployment rate fall to 8.5%. In other upbeat news, US consumer confidence finished 2011 at a five-month high.

German factory orders

Data for November showed that German factory orders dropped the most in almost three years as the eurozone economy edges towards a possible recession.

Bond auctions

France and Germany conducted successful bond auctions last week, although France had to pay a slightly higher yield, while demand at the German auction was lower than the five-year average. France, Germany, Greece, Italy and Spain are scheduled to sell debt this week.

Currencies

In currency markets, for the fifth successive week, the euro fell against the dollar. This fall is as a result of the ongoing fears that the region's debt crisis is worsening and is its longest losing streak in almost two years. The €/£ rate finished the week at 1.27, a fall of almost 2%.

Oil

The West Texas oil price rose in line with markets, but saw its gains pared late in the week, as speculation that the eurozone is headed for a recession overshadowed Middle-East tensions which could affect supply. Oil finished the week above \$101 a barrel.

	Index	Year to Date Return 31.12.11 to 06.01.12	
		Local Currency %	Euro %
Global	FTSE World	1.2	2.9
US	S&P 500	1.6	3.5
US	NASDAQ	2.7	4.6
Europe	FT/S&P Europe Ex. U.K.	0.5	0.5
Ireland	ISEQ	-0.4	-0.4
UK	FTSE 100	1.4	2.7
Japan	Topix	0.1	1.9
Hong Kong	Hang Seng	0.9	2.8
Australia	S&P/ASX 200	1.3	2.9
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.7	-1.7

Global Equities



United States

Overview

US stocks rose for the best start to a year since 2006, following optimism the US economy is weathering the eurozone crisis, along with upbeat economic data in the US and a number of Asian economies.

Alcoa – The biggest US aluminium company saw its shares rise 6% in advance of it kicking-off the Q4 earnings season when it reports today. It is expected to announce a loss of 1 cent a share.



Europe

Overview

Eurozone markets finished the week higher, but had gains pared by the region's debt worries.

Banking sector – The European banking sector underperformed over the week. This followed UniCredit's announcement of the details of its rights offer, which was not well received, indicating poor institutional demand for the deal.



Ireland

Overview

It was a quiet week for Irish stocks and the ISEQ finished the week slightly lower.

CRH – The market's largest stock, CRH, dropped 7% partly as a result of stockbroker, Credit Suisse, downgrading its shares.



Asia Pacific

Overview

Asian stocks rose for the third successive week as economic releases around the world supported markets. In the Asia Pacific region, reports showed rising factory activity in China, India and Australia. China's oil companies also got a boost as a result of market reforms and the prospect of lower taxes.

Bonds

Spanish bond yields rose by their most in 17 years on concern that it will struggle to cut budget deficits amid the economic slowdown. French bond yields also rose as borrowing costs climbed at its debt sale. The Merrill Lynch over 5 year government bond index ended the week almost 2% lower.

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 this 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.
- So far this year, global equities have risen by about 3% 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 in this environment. 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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Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie

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