Zurich Life
Weekly Investment News

30th January 2012

ZURICH

Global Overview

Equity markets move higher

Equity markets moved higher over the week, with upbeat US economic data and comments from the Federal Reserve, the main contributors.

US interest rates

The Federal Reserve left rates unchanged at its latest meeting and, in its statement, commented that economic conditions will likely "warrant exceptionally low levels for the federal funds rate at least through late 2014".

US data

The US economy grew at an annual rate of 2.8% in the final three months of 2011. Consumer spending and increased production from businesses contributed strongly to this growth. Separate to this, durable good orders rose 3% in December, while jobless claims data also beat investors' expectations.

UK growth data

The UK economy contracted slightly in the last quarter of 2011, raising fears of a double dip recession. While the economy only shrank 0.2%, this contraction was more-than-expected.

Currencies

In currency markets, the euro strengthened against the dollar, gaining steadily following the Fed comments regarding interest rates. The €/$ rate finished the week at almost 1.32, a gain of 2%.

Oil

Oil prices rose for another week, this time mainly on the back of good economic data in the US. Oil finished the week just shy of $100 a barrel.

	Index	Year to Date Return 31.12.11 to 27.01.12		1 Week Return 20.01.12 to 27.01.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.0	4.8	0.4	-0.7
US	S&P 500	4.7	3.0	0.1	-1.8
US	NASDAQ	8.1	6.4	1.1	-0.8
Europe	FT/S&P Europe Ex. U.K.	5.5	5.5	0.3	0.3
Ireland	ISEQ	3.6	3.6	0.1	0.1
UK	FTSE 100	2.9	2.5	0.1	-0.7
Japan	Topix	4.5	3.1	0.7	-0.8
Hong Kong	Hang Seng	11.2	9.6	1.9	0.1
Australia	S&P/ASX 200	5.7	7.9	1.1	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	2.0	2.0	1.6	1.6

Global Equities

United States

Overview

US stocks were marginally higher last week as corporate earnings results and positive Fed comments were offset by mixed economic data. Caution remains, though, as investors have questioned the strength of future growth.

Technology – Apple well exceeded analysts' expectations with record quarterly revenues of $46 billion, helped largely by sales of 37 million iPhones in the quarter. Shares in the company rose 6%, to an all-time high, and helped it regain the position of the largest company in the world.

Europe

Overview

European markets moved marginally higher as economic data in the US helped offset the ongoing fears surrounding the eurozone's debt crisis, as talks between Greece and its investors remain unresolved.

Ericsson – The world's largest maker of wireless networks reported Q4 profit that missed analysts' estimates by almost 70%. This happened as North American customers slowed spending and new upgrade contracts in Europe pared margins. Shares in the company were 11% lower over the week.

Ireland

Overview

The Irish stock market finished the week relatively unchanged.

Smurfit Kappa – Packaging group Smurfit Kappa gained over the week after the sector got a boost from some peer companies raising prices for container-board, which should lead to earnings estimates rising.

Asia Pacific

Overview

Asian markets were the best performers last week as export-led stocks gained following upbeat US data and comments from the Fed regarding interest rates. Toyota, Sony and Samsung were among the strongest gainers during the week. Elsewhere, the Indian market jumped after its central bank unexpectedly lowered the amount of deposits lenders need to set aside as reserves for loans. It also signalled it may cut interest rates further.

Bonds

Italian bonds rose, with two-year yields sliding to their lowest since September, after the country sold €5 billion worth of bonds at lower yields than previously. Spanish bonds also gained for similar reasons. However, German bonds gained as Greece and its creditors struggled to reach agreement over a debt-swap. The Merrill Lynch over 5 year government bond index ended the week 1.6% higher.

Global Outlook

- Even though some of the more recent data in the US have been reasonably good, 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, it's otherwise likely that inflation pressures should remain reasonably modest. As before, no major countries are seeking currency strength 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 now stated its intention to keep these levels until late 2014. Indeed, globally central banks are either neutral in their stance or have embarked on more easing measures. The ECB will likely enact another rate reduction in, or before, March and low rates will also be maintained by it for some time to come.
- Some of the peripheral bond markets remain stressed although performance has been differentiated of late. For instance, Spanish bonds have tightened over 1.5% from their wides while Portuguese bond spreads have widened to 13.5%. Irish spreads have behaved well of late also against an extremely positive consensus regarding Ireland among bond investors, one that is somewhat concerning from a contrarian perspective. It's unlikely that the eurozone crisis is over yet and further twists and turns are likely, even if an ultimately benign outcome occurs; meanwhile, the Greek situation remains extremely dangerous. 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.
- Global equities in euro terms have risen by 4.8% so far this year. As with last year, valuations are reasonable but investors are looking for signals or reassurance regarding the future earnings' picture, given economic growth risks and continued instability in the eurozone. Most equity investors continue to expect a benign resolution of the eurozone crisis but that may not occur without considerably more ups and downs. Markets are likely to be volatile again this year and the good start to the year may not persist in the near term.
- The funds are underweight equities and slightly 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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