Zurich Life
Weekly Investment News

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ZURICH

Global Overview

Equity markets move higher
Equity markets moved higher following good eurozone bond auctions, better-than-expected US economic data and speculation that Chinese monetary policy will be eased.

Eurozone rating
Even though a few countries were downgraded recently, the eurozone's long and short term issuer ratings were reaffirmed by Standard & Poor's Rating Agency, as AAA/A-1+. However, because of the 'ongoing risks' for the region, S&P's outlook is negative.

US data
Sales of previously-owned US houses rose to a one-year high in December, improving the view that residential real estate is stabilising. There was also good jobless data which showed a sharp decrease in the weekly jobless claims figure.

UK economic data
UK retail sales rose in December as stores cut prices during the year-end Christmas season. The sustainability of this recovery has been questioned, though, as unemployment rises and inflation outpacing wage increases hurts consumer confidence.

Currencies
In currency markets, the euro broke its weakening streak against the dollar as it gained on the back of good bond auctions in the region. The dollar also saw some weakening, due to investors seeking higher-yielding currencies, as the global economic picture showed further signs of improvement. The €/$ rate finished the week just above 1.29, a gain of 2%.

Oil
Oil prices retreated from the $100 a barrel mark, mainly due to a contraction in Chinese manufacturing activity. Oil finished the week slightly above $98 a barrel.

	Index	Year to Date Return 31.12.11 to 20.01.12		1 Week Return 13.01.12 to 20.01.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	4.7	5.5	2.4	1.1
US	S&P 500	4.6	4.8	2.0	0.0
US	NASDAQ	7.0	7.2	2.8	0.8
Europe	FT/S&P Europe Ex. U.K.	5.2	5.2	3.4	3.4
Ireland	ISEQ	3.6	3.6	2.6	2.6
UK	FTSE 100	2.8	3.3	1.6	1.2
Japan	Topix	3.7	3.9	2.8	0.7
Hong Kong	Hang Seng	9.1	9.4	4.7	2.8
Australia	S&P/ASX 200	4.5	6.9	1.0	0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.5	0.5	0.1	0.1

Global Equities

United States

Overview
US stocks rose as better-than-expected earnings results and economic data gave investors reason to cheer. Optimism that the eurozone will resolve its debt crisis and that China will lower interest rates also helped sentiment.

Technology – The tech sector performed well as IBM and Microsoft both beat earnings' expectations. Microsoft was helped by Christmas sales of its Xbox console, while IBM predicted Q1 earnings that may top analysts' expectations.

Europe

Overview

Improved optimism that the region will be able to contain the debt crisis, after successful bond auctions in France and Spain, helped stocks gain last week. Further upbeat economic data in the US and speculation that China will reduce curbs on its banks' lending also contributed to the rise.

Banking stocks – Banking stocks rallied from recent lows, with the good bond auctions and reduced borrowing costs of some of the region's largest countries contributing to this. Barclays, Société Générale and Intesa Sanpaolo were among the biggest gainers.

Ireland

Overview

The ISEQ followed the rest of the world higher after upbeat economic data and the easing of fears over the eurozone debt crisis.

C&C Group – The drinks company saw its shares rally 5% over the week after management reiterated its full-year guidance. This is despite trading conditions in the Irish market remaining difficult, which is being offset by international growth for C&C products.

Asia Pacific

Overview

A preliminary reading of a Chinese PMI for January pointed to manufacturing activity declining for the third successive month. Pressure is now increasing on the Premier, Wen Jiabao, to continue to ease monetary policy. China Construction Bank jumped 6% amid signs that policy makers will ease lending curbs to spur growth in the world's second-largest economy.

Bonds

German bond yields rose to their highest in a month as a result of investors moving to risk-assets in the light of equities rising. In addition, sentiment grew more positive that policy makers moved closer to resolving the region's debt crisis. French and Spanish borrowing costs also fell after both conducted successful bond auctions. The Merrill Lynch over 5 year government bond index ended the week relatively unchanged.

Global Outlook

- 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, it is 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 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 enact another rate reduction in, or before, March and low rates will also be maintained by it for some time to come.
- Peripheral, and some of the other, eurozone bond markets remain stressed although performance has been differentiated of late. For instance, Spanish bonds have tightened over 1.0% from their wides, while Italian bond spreads remain closer to their widest levels. The general themes of the last two years look likely to persist for some time to come; even an ultimately benign outcome may take many further twists and turns. 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 around 5.5% 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, for now, tactically neutral 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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