Zurich Life
Weekly Investment News

6th February 2012

ZURICH

Global Overview

Equity markets move higher
Equity markets continued their strong start to 2012 as most markets finished the week with healthy gains. Economic data worldwide and good jobs data in the US were among the main contributors.

US jobs data
Data on Friday showed that payrolls increased by 243,000 in January, well ahead of the estimates of 140,000. This helped the unemployment rate to drop sharply, to 8.3%, its lowest level since February 2009.

US data
US manufacturing data for January showed that the economy grew at its fastest pace since June. New factory orders were the main contributor to this expectations-beating rise.

Eurozone jobs
Unemployment in the eurozone hit its highest level since the formation of the single-currency region 14 years ago. Partly as a result of this, retail sales fell unexpectedly in December.

UK growth data
A week after recording a contraction of 0.2%, the UK economy got a boost from manufacturing data unexpectedly expanding and reaching an eight-month high in January.

Currencies
In currency markets, the euro weakened against most major currencies as a resolution on the talks between Greece and its creditors struggled to reach agreement. The €/$ rate finished the week slightly lower, at 1.31.

Oil
Oil prices finished the week lower, but pared this fall on Friday after the jobless rate in the US fell to its lowest level in three years. Oil ended the week just shy of $98 a barrel.

	Index	Year to Date Return 31.12.11 to 03.02.12		1 Week Return 20.01.12 to 03.02.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	7.2	7.4	2.1	2.5
US	S&P 500	6.9	5.5	2.2	2.4
US	NASDAQ	11.5	10.0	3.2	3.4
Europe	FT/S&P Europe Ex. U.K.	9.0	9.0	3.3	3.3
Ireland	ISEQ	8.0	8.0	4.2	4.2
UK	FTSE 100	5.9	6.5	2.9	3.9
Japan	Topix	4.4	3.5	-0.1	0.4
Hong Kong	Hang Seng	12.6	11.2	1.2	1.5
Australia	S&P/ASX 200	4.8	8.7	-0.9	0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	3.2	3.2	1.1	1.1

Global Equities

United States

Overview
US stocks recorded another positive week, as manufacturing data in the US and elsewhere, along with jobs data, supported stocks throughout the week.

Initial public offerings (IPO – Facebook filed to raise $5 billion in what will be the largest IPO on record, while Marathon Petroleum announced it is considering an IPO for its pipeline assets that may be worth close on $6 billion and a $2 billion share buy-back after two years. Shares in Marathon Petroleum rallied 17% on the back of this announcement.

Europe

Overview

European markets rose as jobs data in the US and manufacturing activity in a number of regions were better-than-expected.

ThyssenKrupp – Germany's largest steelmaker rose 2.6% after it agreed to sell its stainless-steel unit to Finland's biggest stainless-steel producer, Outokumpu, in a deal worth €2.7 billion.

Ireland

Overview

The Irish stock market hit a one-year high during the week, helped by Ryanair, CRH and Bank of Ireland rising.

Ryanair – The airline is on target to deliver its highest annual profits ever after posting a Q3 profit of close to €15 million. This well exceeded analysts' expectations and helped its shares rise over the week.

Asia Pacific

Overview

Asian markets were mixed as the eurozone crisis overshadowed manufacturing reports in China, India and the US. Japan's industrial production rose the most in seven months in December, but its market still finished the week unchanged. India's markets got a boost from comments from the Reserve Bank of India's Deputy Governor that the monetary authority will cut interest rates once it is confident inflation will keep slowing.

Bonds

Eurozone bonds in some peripheral countries rose on optimism that extra funds provided by the European Central Bank LTRO are helping to contain the debt crisis. French bonds managed to gain after a successful bond auction but German bunds fell as strong economic data dampened demand for the region's safest assets. The Merrill Lynch over 5 year government bond index ended the week 1.1% higher.

Global Outlook

- Investors have been buoyed by some of the most recent US data and by optimism surrounding liquidity provisions by the ECB and have, therefore, put less stress on a recession in Europe or 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. Currency strength is seen by most countries as something to be resisted – in some cases, actively so – and this is normally a sign that inflationary pressures remain modest.
- 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 strong of late in a number of markets. 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 7% so far this year. As with last year, valuations are reasonable but investors are looking for signals or reassurance regarding the future earnings' picture. While most equity investors continue to expect a benign resolution of the eurozone crisis, that may not occur without considerably more ups and downs. Markets have had a very strong start to the year – driven by better macroeconomic sentiment, rather than earnings - and this normally portends a good year. However, we expect volatility to arise during the year and, for that reason, are still a little cautious at these levels.
- 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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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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