Zurich Life
Weekly Investment News

ZURICH

13th February 2012

Global Overview

Volatility returns to equity markets

Despite the release of upbeat economic data, growing fears over an agreement on the Greek bailout package prompted volatility across most equity markets in the latter part of last week. US and European equity markets retreated from their six-month high to end the week lower.

Greek parliament passes austerity package

Over the weekend, Greece's government reached a deal on austerity measures required to secure the €130 billion rescue fund from the EU and IMF. Passage of the austerity bill now places the spotlight on a meeting of euro region finance ministers on February 15th, to decide whether to approve further funding for Greece.

US economic data

Fewer Americans filed for jobless benefits for the week ending February 4th (drop of 15,000 applications) and consumer confidence rose to its highest level in a year.

Eurozone interest rates

ECB policymakers left benchmark interest rates unchanged at a record low of 1%, as anticipated. At the press conference, President Mario Draghi noted that recent surveys confirm tentative signs of stabilisation in the eurozone economy.

UK interest rates

In line with market expectations, the Bank of England's Monetary Policy Committee voted to keep interest rates at their record low of 0.5%. The Bank of England also announced plans to inject a further £50 billion into UK government bonds to stimulate the economy.

Currencies

Despite some risk aversion last week, the euro held up well with the €/$ rate finishing the week at 1.32.

Oil

Expectations of a boost in global demand upon Greece's approval of the austerity bill, along with recent strong crude oil import data for China, helped the oil price to end the week just shy of $100 a barrel, a gain of 1%

	Index	Year to Date Return 31.12.11 to 10.02.12		1 Week Return 03.02.12 to 10.02.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	7.1	6.5	-0.2	-0.8
US	S&P 500	6.8	4.9	-0.2	-0.6
US	NASDAQ	11.5	9.5	-0.1	-0.5
Europe	FT/S&P Europe Ex. U.K.	7.8	7.8	-1.1	-1.1
Ireland	ISEQ	6.9	6.9	-1.1	-1.1
UK	FTSE 100	5.0	4.7	-0.8	-1.7
Japan	Topix	6.9	4.2	2.4	0.6
Hong Kong	Hang Seng	12.7	10.9	0.1	-0.3
Australia	S&P/ASX 200	4.7	7.0	-0.1	-1.5
Bonds	Merrill Lynch Euro over 5 year Govt.	3.2	3.2	0.0	0.0

Global Equities

United States

Overview

US stocks retreated from their six-month highs late in the week, due to growing scepticism about Greece successfully approving the required austerity measures, after parliament missed a series of deadlines.

Cisco – The networking giant reported better-than-expected revenue ($11.5 billion versus $10.4 billion one year earlier), with the company's $1 billion cost-cutting measures beginning to pay results. The company also announced plans to increase its dividend.

Europe

Overview

Some weaker-than-expected financial sector corporate earnings' results (Credit Suisse, UBS and Deutsche Bank), along with worries over Greece, caused European markets to decline by 1% over the week.

Credit Suisse Bank – The second largest Swiss bank reported a fourth-quarter net loss (637 million Swiss francs) for the first time since 2008, negatively impacted by adverse market conditions, steps to exit unprofitable business and the cost of reorganising the investment bank.

Ireland

Overview

After hitting a one-year high the previous week, the ISEQ tracked global stock-markets to finish the week 1% lower.

Elan – The biotechnology company reported pre-tax profits of more than $560 million in 2011, following a loss of $325 million in 2010, helped by a 23% rise in sales of its Tysabri multiple sclerosis drug.

Asia Pacific

Asian markets were mixed (Japan's Topix Index gaining over 2% and Hong Kong's Hang Seng Index marginally up) as the eurozone crisis rumbled on last week. Latest data show that China's imports fell sharply in January, while exports also marginally declined over the same period, raising concern about weaker demand.

Reserve Bank of Australia – The central bank surprised markets by announcing the decision to maintain interest rates unchanged at 4.25%.

Bonds

Despite the uncertainty in markets, non-core eurozone government bond markets showed little negative reaction to the outlook for Greece. In fact, Italy's ten-year yield, viewed as a gauge for eurozone stress, held below the 6% mark. However, in contrast, German sovereign debt prices rose on heightened worries over Greece. The Merrill Lynch over 5 year government bond index ended the week relatively unchanged.

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 is 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, which had widened significantly, have narrowed aggressively albeit to still very wide levels. 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. Despite yesterday's Greek vote the situation there remains precarious and it is unlikely that the eurozone crisis is over yet; further twists and turns are likely even if an ultimately benign outcome occurs. 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 6.5% so far this year. As with last year, valuations are reasonable but investors are looking for signals or reassurance regarding the future earnings' picture. 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 remain 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 (though less so), neutral in the Pacific region and slightly overweight in the US.

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