Zurich Life
Weekly Investment News

12th March 2012

ZURICH

Global Overview

Equity markets mixed
Volatility returned to equity markets last week, as markets suffered their largest one-day fall in more than three months on Tuesday, with investors fretting over Greece's deadline to complete a deal with private bondholders. However, from mid-week onwards, Greece secured a second bailout and the latest US economic data came in better-than-expected, resulting in earlier losses being reversed.

US economic data
The latest US jobs report showed employers added 227,000 jobs in February. December and January's figures were also revised upwards with 61,000 more jobs being created in those two months. Elsewhere, the unemployment rate held at a three-year low of 8.3% in February.

Eurozone interest rates
ECB policymakers voted to hold benchmark interest rates steady at a record low of 1%, as expected. During a press conference ECB President Mario Draghi noted that the eurozone economy faces further uncertainties with the bank lowering the growth forecast for 2012.

UK interest rates
The Bank of England's Monetary Policy Committee (MPC) voted to keep interest rates at 0.5%, marking three years since rates were first cut to the record low. The MPC also decided to make no change to the quantitative easing programme.

Currencies
The euro lost ground against the dollar as a result of better-than-expected US economic data releases, resulting in the €/$ rate ending the week 1% lower, at 1.31.

Oil & gold
In commodity markets, simmering tensions over Iran's nuclear programme along with signs that the US economic recovery is gathering pace resulted in crude oil ending the week at $107 a barrel, a 1% gain.

	Index	Year to Date Return 31.12.11 to 09.03.12		1 Week Return 02.03.12 to 09.03.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	9.9	9.2	-0.2	0.1
US	S&P 500	9.0	7.7	0.1	0.8
US	NASDAQ	14.7	13.3	0.4	1.1
Europe	FT/S&P Europe Ex. U.K.	9.9	9.9	-0.7	-0.7
Ireland	ISEQ	12.6	12.6	0.0	0.0
UK	FTSE 100	5.7	5.5	-0.4	-0.8
Japan	Topix	16.5	7.4	1.3	0.9
Hong Kong	Hang Seng	14.4	13.2	-2.2	-1.5
Australia	S&P/ASX 200	3.8	5.9	-1.4	-2.2
Bonds	Merrill Lynch Euro over 5 year Govt.	5.7	5.7	0.0	0.0

Global Equities

United States

Overview
The S&P 500 index experienced the largest one-day fall in 2012 last Tuesday, declining 1.5%, as the deadline for Greece to complete a deal with its private bondholders triggered risk aversion in markets. However, from Wednesday onwards, markets recovered amid better growth prospects for the US economy, ending the week with small gains.

Qualcomm – The mobile phone chipmaker announced plans to buy back as much as $4 billion of shares and to raise its dividend by 16%, as earnings increase.

Texas Instruments – The semi-conductor company issued a profit warning, lowering its first-quarter earnings and revenue outlook citing weaker demand for its wireless products.

Europe

Overview

European equity markets ended the week almost 1% lower, as worries over the weaker eurozone growth forecast weighed on investor sentiment.

Greek 'debt swap' deal – The vast majority of Greece's private creditors have now signed up to the biggest national debt write-down in history. This has averted a potential disorderly default for now, allowing the next tranche of IMF funding to be released to the Greek government.

Ireland

Overview

The Irish market ended the week unchanged, in line with the rest of the world.

Aryzta – The food company reported that group revenues increased 0.9% for the six months to the end of January, to $1.91 billion, on the back of higher revenues at its food division across Europe and North America.

Asia Pacific

Overview

Asian equity markets were mixed over the week, with Japan's Topix index up 1%, Australia fell 1%, while Hong Kong's Hang Seng index logged a fall of 2% after China cut its growth forecast for this year. At the opening of the National People's Congress, Premier Wen Jiabao announced that China would target growth of 7.5% in 2012.

Bonds

Eurozone bonds made some gains in the early part of the week as equity markets traded nervously at times. However, from mid-week onwards, equity markets recovered, with the mostly better-than-expected data releases resulting in more muted performance towards the end of the week. The Merrill Lynch over 5 year government bond index ended the week unchanged.

Global Outlook

- So far this year "risk-on" trades have been supported by some better US economic data and by optimism surrounding liquidity provisions by the ECB. Investors have put less stress on a recession in Europe or risks to growth elsewhere. While oil prices or a resurgence in other 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. Elsewhere, central banks are either neutral in their stance or have embarked on more easing measures. The ECB will likely enact another rate reduction at some stage this year - although not as soon as had been thought – but, nonetheless, low rates will also be maintained by it for some time to come.
- Some of the peripheral bond spreads remain at stressed levels, although performance has been strong of late in a number of markets. For instance, Spanish bonds have tightened over 1.5% from their wides to around 3.25% while Portuguese bond spreads remain at a worrying 11.5% level. Irish spreads have behaved well, although, the extremely positive consensus regarding Ireland among bond investors is somewhat concerning from a contrarian perspective. Investors, tired of the twists and turns of the Greek situation, did not react to last week's 'debt swap'.The consensus is that the outcome in Greece has little if any knock-on implications for the rest of the eurozone, but that may be overly optimistic. 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 9% so far this year, which is an extremely strong start. As with last year, valuations are reasonable but investors are looking for signals or reassurance regarding the future earnings' picture. Most equity investors continue to expect a benign resolution of the eurozone crisis, but that may not occur without considerably more ups and downs. The markets' surge so far this year has been driven by better macroeconomic sentiment rather than earnings (earnings' estimates had been falling but this has now stopped), and this normally portends a good year. However, given the general backdrop we expect volatility to arise during the year and, for that reason, we remain cautious at current equity levels.
- The funds remain underweight equities and slightly overweight bonds versus the manager average. Within equity sectors, the funds remain underweight financials, basic materials and consumer stocks and overweight technology. Geographically, the funds are underweight in Ireland, Japan, the UK and Europe, neutral in the Pacific region and in the US.

Print Ref: CSA63

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie
Zurich Life Assurance plc is regulated by the Central Bank of Ireland.
Intended for distribution within the Republic of Ireland.

ZURICH®