Zurich Life
Weekly Investment News

10th April 2012

ZURICH

Global Overview

Equity markets extend losses
Further uncertainty returned to risk assets last week amid reduced expectations that the Federal Reserve will undertake any further quantitative easing (QE), along with weaker-than-expected economic data and renewed worries over the eurozone debt crisis.

US economic data
The minutes of the March FOMC meeting revealed that fewer voting members voted in favour of further QE. Latest US non-farm payrolls increased just 120,000, compared with market expectations of an addition of over 200,000 in March. The unemployment rate fell from 8.3% to a three-year low of 8.2%.

Bank of England
The Bank of England left interest rates unchanged at 0.5%, as expected, saying additional asset purchases will be kept "under review".

German exports
German exports unexpectedly rose 1.6% in February, following a 3.4% gain in January, led by increased demand from outside Europe.

Currencies
The euro weakened 1.5% versus the dollar over the week, as a result of reduced expectations for further US stimulus, resulting in the €/$ rate ending the week at 1.31.

Oil & gold
Crude oil traded within a choppy range as a result of worries about a possible disruption to Middle East crude oil supplies and the latest disappointing US jobs data. The oil price ended the week marginally lower at just over $102 a barrel. Elsewhere, gold endured a difficult week, ending at $1,645 an ounce, 1% lower.

	Index	Year to Date Return 31.12.11 to 09.04.12		1 Week Return 30.03.12 to 09.04.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	9.1	8.7	-2.0	-0.5
US	S&P 500	9.9	8.5	-1.9	-0.3
US	NASDAQ	17.0	15.5	-1.4	0.1
Europe	FT/S&P Europe Ex. U.K.	6.5	6.5	-2.6	-2.6
Ireland	ISEQ	10.4	10.4	-1.6	-1.6
UK	FTSE 100	2.7	4.0	-0.8	0.3
Japan	Topix	11.7	4.3	-4.8	-1.8
Hong Kong	Hang Seng	11.7	10.3	0.2	1.7
Australia	S&P/ASX 200	6.5	5.8	-0.4	0.7
Bonds	Merrill Lynch Euro over 5 year Govt.	3.9	3.9	-1.1	-1.1

Global Equities

United States

Overview
The S&P 500 Index endured its worst week since the start of the year, as disappointing economic data and minutes from the March meeting suggested that a third round of monetary easing by the Federal Reserve will be unlikely. The S&P 500 Index fell almost 2% over the week, to end at 1,382.

Avon Products – The cosmetics seller was one of the largest gainers last week, rising 21% after a $10 billion takeover offer by fragrance group Coty.

Bed Bath & Beyond – The home goods retailer was also one of the better performers after it reported that profit jumped 24% in the fourth quarter on the back of better-than-expected sales numbers and cost-cutting.

Europe

Overview

European equity markets fell 2.6%, as downbeat data releases and the fiscal outlook for the weaker peripheral eurozone economies weighed on investor sentiment.

Thomas Cook – The tour operator announced it is in advanced talks with its banking group to agree a £1.2 billion deal to secure the future of the company.

Ireland

Overview

The Irish equity market ended the week 1.6% lower, in line with the rest of the world.

Asia Pacific

Overview

Asian markets were mixed last week. The Japanese Topix Index declined almost 5%, although Hong Kong's Hang Seng index ended the week slightly up. China's latest trade data showed that imports grew by a less-than-expected 5.3% in March, compared with 39.6% the previous month. In other news, the Bank of Japan left interest rates on hold at between zero and 0.1%, saying that the world's third-largest economy is picking up.

Sony – The Japanese consumer electronics giant has forecast a record net loss of $6.4 billion for the fiscal year 2011, double its earlier forecast and the fourth consecutive year in the red. The company has noted that this increase in losses is due to a tax charge in the US and plans to axe up to 10,000 of its workforce.

Bonds

Spanish borrowing costs increased last week, as the latest bond auction proved disappointing with just €2.6 billion of debt being sold versus a target of €3.5 billion. German bunds joined US Treasuries making strong gains over the week, due to their safe-haven status. The German ten-year government bond yield traded as low as 1.74% over the week. The Merrill Lynch over 5 year government bond index ended the period over 1% lower.

Global Outlook

- During the first quarter of 2012, higher risk investments were supported by some better US economic data and by ECB liquidity provisions. Investors put less stress on any risks to growth in Europe or elsewhere. Some concerns have begun to emerge again, however, albeit to a small extent so far. While higher oil prices or a surge in other commodity prices could add to upside inflation risks, it is otherwise likely that inflation pressures should remain reasonably modest. Currency strength continues 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 stated its intention to keep these levels until late 2014. Else where, central banks are either neutral in their stance or have embarked on more easing measures. The markets now think that another ECB rate reduction is not likely but, nonetheless, it is expected that low rates will also be maintained by it for some time to come, given that economic and financial market conditions continue to require easy policy.
- Some of the peripheral bond markets had been quite strong of late, with spreads tightening significantly from their widest levels. A little nervousness has begun to return, this time focused mainly on Spain and the impact of austerity measures on the economy and banks' exposure to real estate. Irish spreads over Germany had also been stable at around 5% in the 10 year maturity, although we continue to be cautious regarding the extremely positive consensus regarding Ireland among bond investors. The Greek default had no immediate impact on sentiment and the view – which may be optimistic – is that the default has little if any knock-on implications for the rest of the eurozone. The generally disinflationary backdrop in the global economy 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 8.7% so far this year, which is an extremely strong start. Valuations remain reasonable but the markets' surge was 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. The markets seem to have become a little cautious at current levels, evident by a slight move to a less cyclical bias, and economic data has become more even-handed of late rather than having a positive surprise bias. Also, some limited nervousness has returned to European equity markets centred on the sovereign/bank nexus. We had expected volatility to return at some stage and this remains the case; for now we will stick with a neutral stance on equities.
- Zurich funds are now more neutral in equities and bonds (the recent tactical bond overweight position has now been called back) versus the manager average. Within equity sectors, the funds are pretty balanced at the moment although they continue to be overweight technology and consumer goods and slightly underweight basic material stocks. Geographically, the funds are underweight in Ireland, the UK and Europe (from neutral), neutral in the Pacific region and slightly overweight 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®