Zurich Life
Weekly Investment News

16th April 2012

ZURICH

Global Overview

Equity markets fall
Most equity markets finished the week lower after weak economic data, including a disappointing growth rate in China, and renewed eurozone debt fears, as Spain's bond yield rose to just short of 6%.

US consumer confidence
Latest US consumer confidence data showed that confidence cooled from a one-year high amid fears that the moderation in job growth may limit the ongoing recovery in the country.

UK credit rating
Standard & Poor's reaffirmed the UK's credit rating at AAA with a stable outlook, even though Moody's Investors Service and Fitch Ratings have warned in the past two months that the UK is at risk of losing its top grade. Both companies cited concerns about the risks to the government's ability to pay its debts.

Spain
Data released showed that borrowing by Spanish banks from the ECB rose to record levels in March after the bank offered unlimited three-year loans to the eurozone's lenders.

Currencies
The euro fell late in the week against most of its major counterparts, as speculation mounted that the ECB won't restart its government bond-purchase program, even as Spanish bond yields climbed. The €/$ rate ending the week close to 1.31, relatively unchanged overall.

Oil & gold
Crude oil traded lower for the fifth-successive week as China's growth rate cooled and Saudi Arabia's oil minister said the kingdom is determined to see lower prices. The oil price ended the week at almost $103 a barrel, a marginal decline of 0.5% on the week. Elsewhere, gold gained 1.6% as investors looked for safer assets, ending the week at $1,666 an ounce.

	Index	Year to Date Return 31.12.11 to 13.04.12		1 Week Return 06.04.12 to 13.04.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	8.1	7.7	-1.6	-1.7
US	S&P 500	9.0	7.9	-2.0	-1.9
US	NASDAQ	15.6	14.5	-2.2	-2.1
Europe	FT/S&P Europe Ex. U.K.	3.6	3.6	-2.8	-2.8
Ireland	ISEQ	9.6	9.6	-0.7	-0.7
UK	FTSE 100	1.4	2.8	-1.3	-1.3
Japan	Topix	11.9	5.4	-1.2	-0.4
Hong Kong	Hang Seng	12.3	11.3	0.5	0.7
Australia	S&P/ASX 200	6.6	6.8	0.1	0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	4.1	4.1	0.2	0.2

Global Equities

United States

Overview
The S&P 500 Index fell last week, leading it to its first back-to-back weekly losses since November, as economic data in the country missed estimates, China's growth rate cooled and eurozone debt concerns heightened again.

Earnings – JP Morgan Chase and Wells Fargo both reported better-than-expected earnings, but saw their shares fall as a result of the global economic and fiscal worries. Alcoa unexpectedly beat estimates by posting a first-quarter profit, which bucked the market trend and helped its shares to a gain of over 2% for the week.

Europe

Overview

European equity markets fell heavily again last week, as concerns about the region's debt crisis heightened and economic data elsewhere in the world disappointed.

Nokia – The mobile-phone maker saw its shares slump 21% after reporting an operating loss for its mobile-phone division. It also forecast that earnings won't recover this quarter.

Ireland

Overview

The Irish equity market followed the rest of the world and traded lower over the week.

Kerry Group – The company saw its shares slip 2%, mainly as a result of profit-taking, following its share price surge of almost a third over the past six months.

Asia Pacific

Overview

Asian markets were mixed last week. The Japanese Topix Index added to its previous week's losses, while Hong Kong's Hang Seng index and Australia's ASX200 ended the week marginally higher. A relevant factor was speculation that the central banks in China and Japan will add to monetary stimulus as a result of recent weak data. China's economy grew 8.1% in the first quarter of this year compared with the same period last year, which was lower-than-estimated. This disappointment was offset by new lending growth of over 1 trillion renminbi, significantly higher than expectations.

Bonds

Spanish bond prices fell once again last week on concern that budget cuts and ECB measures are failing to stem the country's sovereign debt crisis. Its 10-year yield rose to 6% over the week. German yields fell as investors moved to the safe-haven asset as a result of weaker-than-expected economic data in the eurozone and a slowing of China's economic growth. The Merrill Lynch over 5 year government bond index ended the week marginally higher.

Global Outlook

- Earlier in 2012, higher risk investments were supported by better US economic data and by ECB liquidity provisions. Investors put less stress on growth risks in Europe or elsewhere, although more recently some such concerns have re-emerged. 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 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. Elsewhere, central banks are either neutral in their stance or have embarked on easing measures. Investors now think that another ECB rate reduction is not likely but, nonetheless, expect that low rates will be maintained by it for some time to come, given that economic and financial market conditions continue to require easy policy.
- While some of the peripheral bond markets had been quite strong earlier in 2012, some nervousness has returned, 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 have been pretty stable of late, 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 a very healthy 7.7% so far this year, although the recent market action has been softer. Valuations are reasonable but the markets' strength was due to better macroeconomic sentiment, rather than valuations or earnings. Investors have become a little cautious in the past three weeks or so. This has been driven by more even-handed economic data (rather than the earlier positive data bias) and the return of some nervousness regarding the sovereign/bank nexus in the eurozone. We had expected volatility to return at some stage and this remains the case; for now, we will stick with a neutral to slight underweight stance on equities.
- Zurich funds are now more neutral in equities and bonds (recent tactical bond overweight now scaled 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 and industrial 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®