Zurich Life
Weekly Investment News

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Global Overview

Mixed week for equities

Most equity markets finished the week higher following good earnings data, unexpected improvement in German economic data and comments from the G20 regarding economic growth forecasts.

US retail sales

Retail sales for March rose 0.8%, which well exceeded analysts' estimates, and comes on the back of a 1% gain in February. Elsewhere, jobless claims for the week were higher than expected.

IMF growth forecasts

The IMF raised its growth forecasts for the global economy for 2012 and 2013. It is expecting growth to rise 3.5% this year and 4.1% next year, marginally up from the 3.3% and 4% levels predicted in January.

German data surprises

Data released showed that German Business Confidence unexpectedly rose to a nine-month high in April. German Investor Confidence also rose unexpectedly, leaving it at a two-month high following its fifth successive monthly gain.

Spanish auction

Spain conducted a successful bond auction in which it sold €3.2 billion of debt, compared with the maximum target of €3 billion.

Currencies

Strong earnings and economic data helped the appetite for risk and higher-yielding currencies to rise. This resulted in the €/$ rate ending the week at 1.32, 1% higher over the week.

Oil & gold

In commodity markets, oil gained as the week progressed as a result of economic data releases which caused speculation that European economies may be strengthening. The price ended the week at $103 a barrel, a marginal rise on the week. Gold finished the week over 1% lower.

	Index	Year to Date Return 31.12.11 to 20.04.12		Year to Date Return 13.04.12 to 20.04.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	8.9	7.7	0.7	0.0
US	S&P 500	9.6	7.5	0.6	-0.4
US	NASDAQ	15.2	13.0	-0.4	-1.3
Europe	FT/S&P Europe Ex. U.K.	4.7	4.7	1.1	1.1
Ireland	ISEQ	11.4	11.4	1.6	1.6
UK	FTSE 100	3.6	5.6	2.1	2.8
Japan	Topix	11.4	3.2	-0.4	-2.1
Hong Kong	Hang Seng	14.0	11.9	1.5	0.5
Australia	S&P/ASX 200	7.6	6.9	1.0	0.1
Bonds	Merrill Lynch Euro over 5 year Govt.	3.6	3.6	-0.5	-0.5

Global Equities

United States

Overview

It was a mixed week for US equity markets, but they finished the week on a positive note to leave them relatively unchanged overall. Good earnings releases outweighed jobless claims data, while German and IMF data also supported markets.

Earnings – Defensive sectors were among the best earnings releases over the week as companies in the healthcare, consumer-staples and utilities sectors are considered least dependent on economic growth for earnings. Ebay, Coca Cola and General Electric were among the weekly gainers.

Europe

Overview

European equity markets rose for their first weekly gain since mid-March, following upbeat economic data in the region and globally, along with good corporate earnings.

Resource stocks – Glencore and Xstrata both rose almost 6% after Qatar's sovereign wealth fund gave its backing to the proposed merger of the two companies and increased its stake in Xstrata to nearly 6.3%.

Ireland

Overview

The Irish market was a strong gainer over the week, finishing 1.6% higher.

Independent News & Media – The media company saw its shares rally almost 14%over the week, following the resignation of its chief executive on Thursday and take-over speculation.

Asia Pacific

Overview

While Hong Kong and Australia managed gains over the week, the region's benchmark, the MSCI Asia Pacific Index, finished almost 1% lower on fears that Europe's debt crisis remains a threat to global growth. Technology exporters led the declines in the region after IBM reported disappointing quarterly results.

India – After recent data showed that the economy grew at the slowest pace in more than two years last quarter, the Reserve Bank of India cut interest rates by 0.5%, which was more than market expectations.

Bonds

Spanish bonds fell for their seventh consecutive week as the G20 cited Europe's debt crisis as the main threat to global growth. German bunds saw a weekly gain pared followed the release of stronger-than-expected data for the country. The Merrill Lynch over 5 year government bond index ended the week 0.5% lower.

Global Outlook

- To date, ECB liquidity provisions have removed some of the excessive pessimism surrounding the eurozone growth outlook. Meanwhile, other regions such as the US and Asia are broadly in line with investors' generally positive growth expectations, albeit that risks generally remain on the downside. If commodity prices, such as oil, were to gain strongly from here, it could add to upside inflation risks; otherwise it is likely that inflation pressures will remain reasonably modest. Currency strength continues to be resisted by most countries – in some cases, actively so – and this is a sign that inflationary pressures remain modest.

- Short-term interest rates remain at emergency levels in the US with the Fed intending 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 is officially on hold at the moment but another rate reduction can't yet be ruled out at some stage this year. Nonetheless, low rates will also be maintained by it for some time to come.

- Some stress has returned to peripheral bond markets following a period of outperformance versus German bonds. For instance, Spanish bonds have lost most of their recent out performance, while even French bonds have also underperformed of late. Irish bonds are dominated by an alarmingly positive consensus amongst bond investors (which is somewhat disconcerting). Investors, meanwhile, have ignored the Greek debt default and restructuring, something that could yet come back to influence market sentiment. The global backdrop - low short rates, central bank buying and disinflation concerns - suggests that long-term interest rates in major developed countries 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 month, 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. While US earnings' data has been positive, negative eurozone developments are dominating sentiment in Europe for now. 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 Life funds remain underweight equities and slightly overweight bonds versus the manager average. Within equity sectors, we remain underweight basic materials and consumer stocks and overweight technology. Geographically, the funds are underweight in Ireland, Japan and the UK, closer to neutral in Europe (from underweight), neutral in the Pacific region and now slightly overweight in the US.

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