Zurich Life
Weekly Investment News

8th May 2012

ZURICH

Global Overview

Equity markets fall back

Renewed concern about the outlook for the global economy, on the back of disappointing economic data releases, increased nervousness among investors, resulting in most equity and commodity markets losing ground over the week.

US non-farm payrolls

Latest numbers show that US employers added a modest 115,000 new jobs in April, far fewer than the expected 170,000 figure. Despite growing fears that the economic recovery is fading, April's jobless rate fell to a three-year low of 8.1%.

Eurozone PMI's

The eurozone's manufacturing sector slipped further into decline in April, with the downturn that started in the periphery appearing to spread to core members, France and Germany.

Eurozone interest rates

The European Central Bank's Governing Council left benchmark interest rates unchanged at 1%, as expected. Meanwhile, at the press conference which followed, ECB President Mario Draghi noted that growth must be put back at the centre of the agenda.

Currencies

The US dollar strengthened against the euro, with the former benefiting from safe-haven status and the latter coming under pressure due to weaker-than-expected eurozone PMI's and uncertainty surrounding upcoming elections in France and Greece. The €/$ rate ended the week at 1.31, 1.5% lower.

Oil & gold

In commodity markets, the oil price traded within a volatile range as investors fretted over Spain's economic outlook. On Thursday, the oil price fell further after fresh US data showed a slowdown in the all important services sector during April. The West Texas oil price ended at $105 a barrel, a decline of nearly 7% on the week. Gold also lost ground, falling $25 over the week, to $1,640 per troy ounce, 2% lower.

	Index	Year to Date Return 31.12.11 to 07.05.12		1 Week Return 27.04.12 to 07.05.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	7.6	7.6	-2.1	-1.0
US	S&P 500	8.9	8.1	-2.4	-1.0
US	NASDAQ	13.5	12.7	-3.6	-2.2
Europe	FT/S&P Europe Ex. U.K.	3.2	3.2	-2.0	-2.0
Ireland	ISEQ	9.0	9.0	-2.5	-2.5
UK	FTSE 100	1.5	5.1	-2.1	-1.0
Japan	Topix	6.0	1.3	-4.0	-1.9
Hong Kong	Hang Seng	11.4	10.6	-1.0	0.5
Australia	S&P/ASX 200	6.0	4.8	-1.4	-2.3
Bonds	Merrill Lynch Euro over 5 year Govt.	5.8	5.8	1.0	1.0

Global Equities

United States

Overview

The S&P 500 Index ended the week 2.4% lower, as weaker-than-expected data releases (in particular, disappointing non-farm payroll figures) heightened growing concerns that the US economic recovery story may be faltering.

Kraft Foods – The company reported that first-quarter earnings rose 1.8% to $813 million, compared with $799 million in 2011, boosted by higher prices.

Apple – The technology heavyweight declined almost 6% with investors unconvinced that the momentum of its share price is sustainable.

Europe

Overview

European equities fell 2% as increased worries over global economic growth and concern over Spain's ailing banking sector undermined confidence.

BNP Paribas – France's largest bank reported that first-quarter net profit rose 9.6%, to €2.86 billion, boosted by a large asset sale gain from Klépierre. Analysts had previously forecast a net profit figure of €2.66 billion for the three months to 31 March.

Ireland

Overview

The Irish market followed the rest of the world over the week, ending 2.5% lower.

Kerry Foods – In its latest statement, the food maker reported that despite a difficult economic backdrop, it has made a solid start in Q1 2012, confirming guidance for the full year driven by a pipeline of new wins and further product development.

Asia Pacific

Overview

The Hong Kong Hang Seng index fell 1.0% on fears that Europe's debt crisis remains a threat to global growth. The Topix Index also endured a difficult week, closing 4.0% lower.

Toshiba – Japan's leading chip maker posted a 14% fall in annual operating profit due to a strong yen and slower demand resulting from the eurozone debt crisis. Operating profit fell to 206.65 billion yen ($1.9 billion) in the year ended 31 March.

Reserve Bank of Australia – The Reserve Bank of Australia cut interest rates by a more than expected, 0.5% to 3.75%, amid increasing signs that the economy is being hit by a slowdown in global growth.

Bonds

Weaker-than-expected economic data resulted in the buying of highly-rated core bonds last week. The yield on ten-year German bunds hit an all-time low of just below 1.59%, as concern about the eurozone's economic prospects pushed investors into the financial safe haven. Conversely, peripheral spreads remained wide in advance of the French and Greek elections. The Merrill Lynch over 5 year government bond index ended the week 1.0% higher.

Global Outlook

- ECB liquidity provisions have removed the excessive pessimism surrounding the eurozone growth outlook, but some concerns are emerging once again. 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. Unless we get an unexpected surge in commodity prices, such as oil inflation, pressures should be reasonably low. Currency strength continues to be resisted by most countries – in some cases, actively so – and this is a sign that central banks' inflation concerns 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 is still possible before this cycle ends, especially since eurozone growth concerns have resurfaced.

- Some stress has returned to peripheral bond markets following a period of outperformance versus German bonds, fuelled by political developments and the 'growth versus austerity' debate. Spanish bonds have lost a lot of their recent outperformance as investors look again at the volume of bad debts in the banking system and the feasibility of its deficit targets. Political developments have put the spotlight back on Greece and, to a certain extent, even on France. Irish bonds, in contrast, are dominated by a somewhat disconcertingly positive consensus amongst bond investors and commentators alike. 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 healthy 7.6% so far this year, although the recent market action has been more two-way. 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 have offset this. 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, neutral in the Pacific region and slightly overweight in the US.

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