Zurich Life
Weekly Investment News

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ZURICH

Global Overview

Most equities gain
Despite disappointing economic data releases, low trading volumes and profit taking at times, most equity markets managed to end last week in positive territory.

EU summit outcome
Equity markets initially responded well to EU leaders agreeing to channel aid directly to troubled banks, without further burdening a country's debt. Moreover, leaders also agreed to make it easier for countries to obtain rescue loans and for the European bailout fund to purchase bonds from other investors, which would lower countries' borrowing rates.

US economic data
US non-farm payrolls showed a weaker-than-expected reading and US ISM manufacturing data contracted for the first time in three years.

Eurozone interest rates
In line with market expectations, the European Central Bank cut benchmark interest rates by 0.25%, to 0.75%. The bank has also lowered the rate it pays on overnight deposits to zero.

UK interest rates
The Bank of England's monetary policy committee voted to maintain rates steady at 0.5%, as expected. However, the bank has extended its asset purchase scheme, injecting a further £50 billion into the UK economy, taking it to £375 billion.

Currencies
The euro hit its lowest level in two years, suffering its largest weekly fall so far this year, as the move by the ECB to cut the refinancing and deposit rates made the euro less attractive. The €/$ rate ended the week at €1.23, a fall of 3%.

Oil & gold
Oil prices rose in the early part of the week, as the EU's Iranian sanctions impacted and Norwegian oil producers preparied for disruption to output. However, disappointing US jobs data, combined with news that the Norwegian government had stepped in to intervene, prompted profit-taking. The West Texas oil price ended the week around $84 a barrel, a weekly decline of 0.6%.

	Index	Year to Date Return 31.12.11 to 06.07.12		1 Week Return 29.06.12 to 06.07.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	7.0	11.6	0.2	2.8
US	S&P 500	7.7	13.7	-0.5	2.4
US	NASDAQ	12.8	19.0	0.1	3.1
Europe	FT/S&P Europe Ex. U.K.	2.0	2.0	0.1	0.1
Ireland	ISEQ	9.4	9.4	0.8	0.8
UK	FTSE 100	1.6	7.0	1.6	3.3
Japan	Topix	5.9	8.1	0.2	3.5
Hong Kong	Hang Seng	7.4	13.6	1.8	5.0
Australia	S&P/ASX 200	2.5	7.5	1.5	4.2
Bonds	Merrill Lynch Euro over 5 year Govt.	6.7	6.7	1.4	1.4

Global Equities

United States

Overview
In a week typically associated with lighter trading (due to the closure of US markets for Independence Day) , the S&P 500 Index ended the week down 0.5%, largely due to weaker-than-expected economic data releases.

Earnings season – This week sees the start of second-quarter earnings results, with Alcoa first up tonight. The aluminium maker is expected to deliver disappointing second-quarter results, challenged by weaker metal prices and rising inventories.

Europe

Overview

Despite making a strong start, European stocks ended the week only slightly higher on the back of deteriorating economic data releases and fading optimism surrounding the outcome of the EU summit.

Banking stocks – Despite the European market making a small gain, banks were among the weakest performers after the investigation into attempts to manipulate the London Interbank Offered Rate (LIBOR) gained traction. The two German banks, Commerzbank and Deutsche Bank's share prices fell on reports that German regulators may investigate interest rate fixing.

Volkswagen – The German carmaker was one of the better performers, climbing 5% over the week, as plans to integrate with Porsche were well-received by markets.

Ireland

Overview

The Irish market tracked the rest of the world, finishing almost 1% higher. For the first time since September 2010, Ireland was back in international capital markets, raising €500 million in an auction of three-month treasury bills at a yield of 1.8%.

Asia Pacific

Overview

Hong Kong's Hang Seng Index was by far the best performing equity market last week, gaining 1.8%. In a surprise move, China's central bank lowered its key interest rate for the second time in less than 30 days. The People's Bank of China announced it would cut the one-year yuan lending rate by 0.31%, to 6%, and the one-year lending rate by 0.25%, to 3%. Other data showed that China's inflation rate slowed in June to its lowest rate since January 2010, coming in at 2.2% year-on-year in June, down from 3% in May.

Bonds

Pressure on peripheral eurozone countries' bonds remained high with Spanish and Italian bond yields steadily rising. Even though the ECB cut rates, it refrained from announcing any additional unconventional measures to address the eurozone debt crisis. The yield on Spanish 10-year bonds jumped 60 basis points in the week to briefly trade above the critical 7% level, which is considered unsustainable by many in markets. In contrast, German 10-year bund yields moved lower over the week, reaching 1.32% on Friday. The Merrill Lynch over 5 year government bond index ended the week up 1.4%.

Global Outlook

- Stress has recently re-emerged in the eurozone with some commentators even questioning the existence of the euro. This, plus disappointing data in other regions, such as the US and China, has added risks to investors' otherwise more positive growth expectations. Unless we get a surge in commodity prices – if anything the reverse is happening at the moment - price pressures should remain contained. Countries continue to resist currency strength and this is a sign that the inflation concerns of policy makers remain modest.
- Short-term interest rates remain at emergency levels in the US with the Fed intending to keep these levels for another two years. Elsewhere, other central banks are either neutral in their stance or have embarked on easing measures. The ECB cut rates as expected last week, but disappointed with no new non-standard measures. Rates will stay exceptionally low for quite some time to come and additional measures will eventually be forthcoming.
- The EU summit announcements produced a sharp relief rally in peripheral bond markets at the end of that week, but this proved a very temporary relief as both Spanish and Italian spreads are now wider than immediately prior to the summit. Investors were relieved that 'something' happened, but remain sceptical that this is 'the solution'. Irish bonds were the exception and have held most of their gains so far. The EU announcement is not material enough to alter perceptions of the global risks to growth. Allied to this are low short rates, central bank buying and disinflation concerns, the combination of which suggest that long-term interest rates in major developed countries could stay at exceptionally low levels for a considerable period of time.
- Global equities in euro terms have gained 11.6% so far this year. While this figure is flattered by a weaker euro exchange rate, it is nonetheless a resilient performance. Valuations continue to be seen as reasonable – as they have been for some time now – but it is investors' perception of the macroeconomic backdrop that has driven sentiment this year. Thus, the EU summit announcement flipped sentiment back to a more positive tone but this was short lived, a continuation of the sentiment 'flip-flop' that has been present for some time. We did add some equity exposure after the announcement, but removed that in line with our broader thinking that this was not a sufficiently decisive step in resolving the crisis. Thus, for now, we will stick with a neutral to slight underweight stance on equities.
- Zurich Life funds remain underweight equities and overweight bonds versus the manager average. Within equity sectors, we remain underweight basic materials, industrials and consumer stocks and overweight technology. Geographically, the funds are underweight in Ireland, Europe and Japan and close to neutral in the UK, the US and the Pacific region.

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