Zurich Life
Weekly Investment News

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Global Overview

Some equity markets recover

Despite volatility in the early part of last week as a result of disappointing earnings and economic data releases, US and European equity markets staged a significant rally from Thursday onwards. The rally came amid increased optimism about the outlook for the eurozone with President of the European Central Bank Mario Draghi promising to do, "whatever it takes" to preserve the euro.

US economic data

US Q2 GDP growth slowed to an annualised rate of 1.5%, from 2% in the first three months of the year. Elsewhere, the University of Michigan final reading on consumer sentiment for July came in slightly ahead of expectations. In other news, initial jobless claims fell to the lowest level in almost four years.

China PMI

The latest HSBC purchasing managers' index revealed that China's manufacturing industry was at its strongest level in five months in July, but is still below the benchmark of 50, indicating contraction.

Currencies

On currency markets, the euro hit its weakest level in more than two years against the dollar at $1.2040, before rebounding on the back of Mario Draghi's comments and speculation that the ECB could support the eurozone by purchasing government bonds. The €/$ rate ended the week at €1.23.

Oil

Despite ongoing tension in the Middle East and increased risk appetite offering support to commodity prices, the oil price ended last week marginally lower at $90 a barrel, a decline of over 1%.

	Index	Year to Date Return 31.12.11 to 27.07.12		1 Week Return 20.07.12 to 27.07.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	8.2	12.8	1.2	-0.1
US	S&P 500	10.2	15.9	1.7	0.3
US	NASDAQ	13.5	19.4	1.1	-0.2
Europe	FT/S&P Europe Ex. U.K.	5.1	5.1	1.8	1.8
Ireland	ISEQ	8.4	8.4	-1.9	-1.9
UK	FTSE 100	1.0	7.9	-0.4	-1.0
Japan	Topix	-0.3	2.9	-1.0	-2.3
Hong Kong	Hang Seng	4.6	10.1	-1.9	-3.2
Australia	S&P/ASX 200	3.8	11.6	0.3	-0.1
Bonds	Merrill Lynch Euro over 5 year Govt.	7.2	7.2	-0.9	-0.9

Global Equities

United States

Overview

Despite mixed economic data releases, optimism that the Federal Reserve and ECB may provide additional stimulus to the global economy boosted investor confidence last week and the S&P 500 Index ended almost 2% higher. Another busy week for company earnings' announcements which on balance showed weaker revenue trends but in-line EPS results.

Exxon Mobil – The world's largest oil company posted lower-than-expected quarterly earnings of $15.9 billion as a result of low US natural gas prices.

Merck – The drug-maker's latest quarterly earnings topped analysts' forecasts, helped by solid growth from vaccines and treatments for diabetes and HIV. However, net income fell as higher sales were offset by unfavourable currency rates and restructuring costs.

Europe

Overview

Despite volatile trading in the first half of last week, European equities gained almost 2% over the week, amid optimism that the European Central Bank will take fresh action to tackle the region's debt crisis.

Banco Santander – Latest quarterly profits at the Spanish banking giant fell by more than analysts had expected, after write-downs totalling €2.8 billion were made to cover real estate losses.

Ireland

Overview

The Irish market was one of the weaker performers last week, ending almost 2% lower, mainly due to a drop in Elan following disappointing news on trials of its Alzheimer's drug.

Ryanair – The airline reported after-tax quarterly profit of €99 million for the period to the end of June, down 29% compared with the same time last year. Despite increased revenue and passenger numbers, the airline cited rising fuel costs, discounting in new routes and the impact of a stronger dollar against the euro as factors for the fall in profit.

Asia Pacific

Overview

Most Asian markets advanced late last week after European leaders signalled they were prepared to take stronger action to curb the region's debt crisis. However, mainland Chinese stocks declined amid lingering worries of an economic slowdown. The Japanese Topix Index and the Hong Kong Hang Seng Index ended the week 1% and 2% lower respectively, despite recovering somewhat towards the end of the week. In company news, the Japanese car maker Nissan Motors reported that net profit in the first quarter declined 15% due to the strong yen. Despite this, the company indicated that it still expects to reach its full-year forecast of 400 billion yen profit.

Bonds

A broad improvement in risk appetite in the latter part of the week reduced demand for the safety of highly-rated German sovereign debt with investors moving back into equities and some peripheral bond markets. Despite the latest Italian two-year bond auction trading at an eight-month high of 4.86%, demand was strong and on a positive note, the yield on Italy's ten-year bond fell in-line with that of Spain's. The Merrill Lynch over 5 year government bond index ended the week down 0.9%.

Global Outlook

- Peripheral debt-induced stress remains 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 policymakers remain modest; and, in the eurozone, the weakness of the currency is probably being welcomed by policymakers.
- 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 recently, 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, with negative deposit rates a distinct possibility in some countries.
- The recent EU summit announcements produced a sharp relief rally in peripheral bond markets, but this proved a very temporary relief. Expectations have been raised again this week following Mario Draghi's comments indicating a readiness for ECB action, given the renewed pressure on Spanish and Italian yield. The market took these comments favourably and will await the outcome of the ECB meeting next Thursday for more evidence on what actions the ECB is proposing. These announcements are 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 suggests 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 13% so far this year. While this figure is flattered by a weaker euro exchange rate - in local currency terms markets are only up 8% - 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 – partly fuelled by the eurozone crisis - that has been the main driver of sentiment this year. While equities have had a stronger week on Draghi's comments, we believe that a risk-off phase might be with us in the immediate period ahead and hence, 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.

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie
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