Zurich Life
Weekly Investment News

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ZURICH

Global Overview

Equity markets move higher
Equity markets gained last week after better-than-expected economic reports, most notably the jobs data in the US helped improve sentiment towards the most risky assets. While some investors were disappointed that central banks did not introduce additional stimulus measures immediately, the signal that they are forthcoming helped equities.

US economic data
More jobs than forecasted were created in the US economy in July, easing concern that the three-year expansion is faltering. Payrolls increased by 163,000, following on from a 64,000 increase in June. However, the unemployment rate unexpectedly rose to 8.3%. Elsewhere, the Federal Reserve (Fed) reiterated its stance that it is prepared to take new steps to boost the economy, if required.

European Central Bank meeting
At its latest meeting, the ECB left its key interest rates unchanged at 0.75%. Its President, Mario Draghi, stopped short of unveiling specific steps to help the region but signalled that the Bank may join forces with governments to buy sovereign bonds. He did not outline how the plan would work at this point.

Currencies
On currency markets, the dollar weakened against most major currencies as risk appetite increased amid speculation that central banks will take action to boost economic growth. The €/$ rate gained marginally, ending the week at €1.24.

Oil
Oil prices surged by the most in a month after US job creation rose and its service industry expanded faster than expected. Prices rose by 2.4% to finish at $92 a barrel. Gold prices finished the week lower but rose on Friday after speculation that the commodity's worst week in six would spark some buying.

	Index	Year to Date Return 31.12.11 to 06.08.12		1 Week Return 27.07.12 to 06.08.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	9.7	14.2	1.4	1.3
US	S&P 500	10.9	15.7	0.6	0.1
US	NASDAQ	14.8	19.8	1.1	0.6
Europe	FT/S&P Europe Ex. U.K.	8.4	8.4	3.1	3.1
Ireland	ISEQ	9.3	9.3	0.8	0.8
UK	FTSE 100	4.3	9.6	3.2	2.0
Japan	Topix	2.1	4.7	2.4	2.1
Hong Kong	Hang Seng	8.9	13.8	4.1	3.7
Australia	S&P/ASX 200	5.8	14.0	1.9	3.0
Bonds	Merrill Lynch Euro over 5 year Govt.	7.7	7.7	0.4	0.4

Global Equities

United States

Overview
The S&P 500 Index rose to its highest level since the start of May after good service industry and jobs data outweighted the lack of immediate action by the Fed. The Index currently stands close to the 1,400 level. Of the companies that have reports, of the companies that have released Q2 reports, earnings so far increased by 73%, beating analysts' expectations.

Apple – Apple, along with other computer and software makers, rose last week on speculation that the new iPhone 5 would be launched in early September. Its shares finished the week 5% higher, while the technology sector rose 1.5%.

Europe

Overview

European stocks rose for a ninth successive week as the market was satisfied that there is a funding backdrop mechanism in place for countries, such as Spain, following the ECB meeting.

Xstrata – The mining company, which is the target of a $27 billion takeover bid by Glencore International, gained almost 7% after it announced its first-half production of coal increased 17% after restarts and mine expansions.

Ireland

Overview

The Irish market rose 1%, as sentiment towards equities showed improvement worldwide.

Aer Lingus – The airline reported a pre-tax loss of €24.5m for the first six months of 2012. The figure includes €4.3m in costs incurred as a result of the takeover offer by Ryanair. The group, in which the Irish government holds a 25% stake, reiterated its call for shareholders to reject Ryanair's offer, which it says the Commission will likely block. Its shares were unchanged over the week.

Asia Pacific

Overview

Asian markets rose for another week, with the MSCI Asia Pacific Index rising for its third week in five, despite paring gains after China, Europe and the US failed to deliver new stimulus to boost growth. Reports showing China's manufacturing and service industries expanded at a slower-than-expected pace in July, also disappointed investors. In stock news, Canon saw its shares jump 7% after the company announced its third share buyback of 2012.

Bonds

Spanish two-year bonds rose, pushing the yield down by the most in 2012, on speculation that the ECB would buy shorter-maturity bonds to try to ease the region's debt crisis. The country's 10-year bond yield also fell, moving below the critical 7% level. Italian bond prices also rose. Overall, the index rose marginally as German bunds swung between gains and losses amid concern about the nation's opposition to further debt purchases by the central bank. The Merrill Lynch over 5 year government bond index ended the week 0.4% higher.

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 left rates unchanged at its meeting last week. 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, although the relief was temporary. Last week at the ECB press conference, Mario Draghi indicated a readiness for ECB bond buying in shorter-dated secondary markets for Italy or Spain, provided they applied to the European Financial Stability Facility for aid. The market took these comments favourably, although scepticism remains that the lack of detail around this announcement may worry markets in the weeks ahead. In addition, there are still concerns about 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.

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