Zurich Life
Weekly Investment News

13th August 2012

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Global Overview

Equity markets move higher

Equity markets gained last week amid speculation that central banks worldwide will act on their promises to protect & stimulate economic growth.

US economic data

It was a quiet week of economic data in the US with jobless claims beating expectations being the main key point. This week however, data, including the consumer price index and retail sales, are due for release and are expected to disappoint investors based on analysts' surveys.

Chinese data

Data releases showed China's industrial production, exports and inflation slowed in July and trailed analysts' expectations. Exports rose by 1% in July, compared with a year ago, having increased by 11% in June.

Currencies

On currency markets, the euro weakened against the dollar for the first time in three weeks, as growth concerns and the plan to ease Europe's debt crisis worried investors, increasing demand for the world's safest currency. The €/$ rate ended the week at €1.23.

Oil

Oil prices pared gains towards the end of the week, on the back of the weak Chinese data and the International Energy Agency's cutting of its estimate of 2012 world consumption by 250,000 barrels a day. Oil prices finished the week at $93 a barrel. The gold price strengthened on speculation of measures being taken to support global economic growth. It rose by 1% over the week.

	Index	Year to Date Return 31.12.11 to 10.08.12		1 Week Return 03.08.12 to 10.08.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	10.8	16.3	1.6	2.0
US	S&P 500	11.8	17.8	1.1	1.7
US	NASDAQ	16.0	22.2	1.8	2.4
Europe	FT/S&P Europe Ex. U.K.	9.2	9.2	1.5	1.5
Ireland	ISEQ	11.7	11.7	2.0	2.0
UK	FTSE 100	4.9	11.8	1.0	1.9
Japan	Topix	2.5	6.3	3.2	4.3
Hong Kong	Hang Seng	9.2	15.3	2.4	3.0
Australia	S&P/ASX 200	5.4	14.5	1.3	2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	8.4	8.4	0.6	0.6

Global Equities

United States

Overview

US stocks moved higher over the week as optimism that the Federal Reserve (Fed) will act to stimulate the economy, amid weak economic data, grew. The failure to reduce the unemployment rate is seen as a key driver of this issue and may lead to the introduction of further stimulus. Earnings also supported markets, with 72% of companies which have reported earnings so far, beating analysts' expectations. Volume, however, remained very low, indicating little market conviction on the move higher.

Sectors – The US market saw a strong switch back to cyclical sectors, such as energy, materials and industrials over the week. Defensive sectors, including utilities, consumer staples and healthcare, lagged the upward market move.

Europe

Overview

European stocks rose for another week after upbeat earnings results. Speculation of measures being taken by the ECB, to stimulate the economy and lessen the funding pressures on Spain and Italy, boosted investor sentiment.

Credit Agricole – The French bank saw its shares rise 12% after it received bids from three Greek lenders for its Greek unit, moving the company closer to an exit from the troubled country.

Ireland

Overview

The Irish market followed the rest of the world higher, finishing the week 2% up.

Kerry Group – Shares in the company rose strongly after its management increased its guidance for the year on the back of strong revenue and earnings per share growth during the first half of 2012. Its shares rose over 4% on the week.

Asia Pacific

Overview

Asian markets rose strongly over the week, despite disappointing Chinese economic data. Data releases showed that China's export growth slumped, new yuan loans trailed estimates and industrial output rose at the lowest level since 2009, raising concern about the world's second-largest economy. Investors are expecting its government to ease monetary policy over the remainder of the year. Meanwhile, in Australia, employers added more jobs than expected in July, while the Reserve Bank of Australia raised its 2012 growth forecast after stronger-than-expected consumer demand.

Bonds

Spanish and Italian two-year bond prices fell for the first time in three weeks amid concern that a plan by the ECB to cap the nations' borrowing costs, by buying their debt, may not succeed. This fear boosted demand for the region's safest debt, helping German 1-year bond prices rise over the week. The Merrill Lynch over 5 year government bond index ended the week 0.6% 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. In the early-August 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 16% so far this year. While this figure is flattered by a weaker euro exchange rate - in local currency terms, markets are only up 11% - it is nonetheless a resilient performance. Valuations continue to be seen as reasonable, as they have been for some time now. However, 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 couple of weeks according to 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 (though less so) and Japan and close to neutral in the UK, the US and the Pacific region.

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