Zurich Life
Weekly Investment News

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Global Overview

Equity markets retreat

Renewed concern about the eurozone debt crisis, disappointing economic data releases combined with further evidence of a slowdown in China, increased nervousness among investor resulting in equity markets losing ground over the week.

US economic data

US existing home sales rose 2.3% in July, however, missed analysts' estimates. Elsewhere, the number of Americans filing applications for unemployment benefits rose slightly for the second week running, while the jobless rate climbed to a five-month high of 8.3%. In other news, orders for US durable goods fell in July, for the fourth time in five months.

US Federal Reserve minutes

The latest US Federal Reserve minutes indicated a clear appetite among Federal Reserve committee members for further quantitative easing (QE) action at the next meeting in September, should economic data continue to disappoint.

German GDP growth

German growth slowed to 0.3% in Q2 2012, following a 0.5% increase the previous quarter. A breakdown of the GDP number revealed a sharp drop in investment by companies.

Currencies

On currency markets, the dollar weakened against the euro, as dovish Federal Reserve meeting minutes increased expectations that the Fed are likely to announce a fresh round of quantitative easing in September. The €/$ rate ended the week at €1.25.

Oil

Despite some intra-week volatility, the West Texas oil price ended the week mostly unchanged at just over $96 a barrel. Elsewhere, gold ended the week 3.5% higher, at $1,671.The commodity reached its highest level for more than four months intra-week, as speculation intensified regarding quantitative easing.

	Index	Year to Date Return 31.12.11 to 24.08.12		1 Week Return 17.08.12 to 24.08.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	11.2	14.9	-0.7	-2.1
US	S&P 500	12.2	16.0	-0.5	-2.2
US	NASDAQ	17.8	21.8	-0.2	-2.0
Europe	FT/S&P Europe Ex. U.K.	9.2	9.2	-1.6	-1.6
Ireland	ISEQ	8.5	8.5	-1.7	-1.7
UK	FTSE 100	3.7	9.4	-1.3	-2.2
Japan	Topix	3.9	5.1	-1.1	-1.8
Hong Kong	Hang Seng	7.8	11.6	-1.2	-2.9
Australia	S&P/ASX 200	7.2	12.5	-0.5	-2.3
Bonds	Merrill Lynch Euro over 5 year Govt.	9.3	9.3	1.0	1.0

Global Equities

United States

Overview

US equities stocks ended the week 0.5% lower, (after reaching its highest level for more than four years, on Tuesday) due to disappointing economic data releases.

Best Buy – The electronics chain reported a sharp fall in recent profits. Net profit for the second quarter came in at $12 million compared with $150 million over the same period, one year earlier. The profit fall was largely impacted by a $91 million one-off charge relating to the cost of closing stores and the retail giant also noted that it could not provide any guidance on its full-year profits due to uncertainty over future sales.

Europe

Overview

European stocks finished last week 1.6% lower, after initial optimism that policy makers were taking decisive action to tackle the eurozone debt crisis showed signs of fading as the week progressed.

BBVA – Spain's second largest bank fell 5% over the week, due to concerns over the structure of the country's proposed "bad bank" and profit-taking as a result of a strong move upwards over the past month.

Ireland

Overview

The Irish market followed the rest of the world lower, finishing the week 1.7% lower overall.

Kingspan – The building materials' company reported a 22% increase in pre-tax profits for the first six months of 2012 but highlighted it expects the weakening European economy to impact sales over the second half of the year. Pre-tax profit came in at €44.5 million, up from €36.1 million a year earlier. The stock reacted favourably, finishing up 6% over the week.

Asia Pacific

Overview

The Asian markets endured a choppy week largely due to disappointing data from China (manufacturing PMI survey) and persisting weakness in the eurozone economy. This resulted in the Hong Kong Hang Seng index and the Japanese Topix index both closing over 1% lower respectively. Elsewhere, Japan posted its largest-ever trade deficit for the month of July, following a collapse in shipments to Europe. Chinese stocks were also hit on speculation that the government will expand a property tax in an effort to curb a real-estate bubble. In earnings news, Australian carrier, Qantas Airways reported an AUD$245 million annual loss in profits, hurt by rising fuel prices and a series of industrial strikes over the period.

Bonds

Weaker-than-expected economic data and concern about the eurozone's economic prospects increased demand for the safety of core bonds last week. However, peripheral bonds did not perform as well, largely due to market concern that the ECB will delay its plans to purchase peripheral bond until after Germany's Constitutional Court rules on the legality of Europe's bailout fund in September. The Merrill Lynch over 5 year government bond index ended the week 1% higher.

Global Outlook

- Peripheral debt-induced stress remains a feature of the investment landscape, albeit investors are currently less worried than before. Concerns over the existence of the euro – which some commentators had expressed – have also dissipated for now. Growth expectations have moderated during the course of the year and the macroeconomic backdrop is unscientifically characterised as 'ok'. Inflation expectations remain contained, despite the recent rise in certain commodity prices such as oil. 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 most recent meeting. 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.

- Markets have taken recent comments by ECB head Draghi - indicating a readiness for ECB bond buying in shorter-dated secondary markets for Italy or Spain - quite positively. Some scepticism remains regarding the lack of detail around this announcement, which 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 15% so far this year. While this figure is flattered by a weaker euro exchange rate - in local currency terms markets are up 11% - it is nonetheless a very strong 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 been supported by Draghi's comments, we believe that the rally will more likely fade than be sustained in the immediate period ahead.

- Zurich Life funds are slightly underweight equities and overweight bonds versus the manager average. Within equity sectors, we remain underweight basic materials, industrials and consumer stocks and neutral 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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