Zurich Life
Weekly Investment News

3rd September 2012

ZURICH

Global Overview

Equity markets retreat

Equity markets worldwide finished the week lower, but well off their lows of the week, as disappointing economic data releases overshadowed Ben Bernanke's comments following the Jackson Hole Economic Policy Symposium.

Federal Reserve

At Jackson Hole, Chairman of the Fed, Ben Bernanke, defended the effectiveness of the actions it has taken over the past few years to try to improve economic growth. Further to this, with unemployment a 'grave concern' to the Fed, Ben Bernanke signalled it was prepared to introduce further stimulus, probably in the form of further quantitative easing, if unemployment remains high. Many analysts are expecting the Fed to announce what further action it plans on taking at its next meeting.

Eurozone economic confidence

A gauge of eurozone consumer confidence dropped to its lowest in more than three years in August, while employment expectations among manufacturers also declined.

Currencies

On currency markets, the dollar weakened against most major currencies over the week, partly as a result of the Fed's comments regarding jobs and growth, increasing the view that further quantitative easing will be introduced, sooner rather than later. The €/$ rate ended the week close to €1.26.

Oil

Oil finished the week relatively unchanged. It had, however, been sharply lower but pared its losses late in the week as producers worked to restore output and resume operations after Hurricane Isaac passed. Also the Fed signalled it was willing to act to support economic growth. The West Texas oil price ended the week at slightly above $96 a barrel. Elsewhere, gold ended the week at $1,682.

	Index	Year to Date Return 31.12.11 to 31.08.12		1 Week Return 24.08.12 to 31.08.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	10.4	13.5	-0.7	-1.2
US	S&P 500	11.8	15.3	-0.3	-0.6
US	NASDAQ	17.7	21.4	-0.1	-0.4
Europe	FT/S&P Europe Ex. U.K.	8.8	8.8	-0.4	-0.4
Ireland	ISEQ	8.9	8.9	0.4	0.4
UK	FTSE 100	2.5	8.1	-1.1	-1.2
Japan	Topix	0.4	1.8	-3.4	-3.2
Hong Kong	Hang Seng	5.7	9.1	-2.0	-2.3
Australia	S&P/ASX 200	6.4	10.4	-0.8	-1.9
Bonds	Merrill Lynch Euro over 5 year Govt.	8.7	8.7	-0.6	-0.6

Global Equities

United States

Overview

US stocks fell as further evidence of slowing global economic recovery overshadowed comments from the Fed regarding supporting economic growth.

Facebook – The social-media company fell to a new low on concern that companies are spending less on advertising, which is expected to hurt sales at Facebook. As a result, some analysts have cut their sales expectations for the year from $6 billion to $5 billion. Facebook's shares finished the week over 7% lower.

Europe

Overview

European markets recovered most of their early-week losses following the Fed's comments, but still finished the week slightly lower overall.

Gemalto – The French security software provider was up more than 6% after reporting higher-than-expected margins and raising its guidance for full-year 2012.

Ireland

Overview

The Irish market bucked the trend over the week, finishing 0.4% higher.

Paddy Power – The bookmaker reported a 21% rise in half-year profits, despite rising investment in new markets and products for the future. Its shares finished the week 5% higher.

Asia Pacific

Overview

The Asian markets were the weakest performers over the week, somewhat due to them being closed prior to the improvement in investor sentiment following the Fed's latest comments. Weak economic data was the main factor behind the falls. China's manufacturing activity unexpectedly shrank for the first time in nine months in August. New orders contracted while output rose at a slower-than-expected rate, signalling a further slowdown in the world's second-largest economy. As a result of this ongoing slowdown, industrial companies' earnings declined in July by the most this year. Markets have also been disappointed by the lack of new Chinese stimulus measures, in recent weeks, to arrest the slowdown which may be linked to this year's leadership transition. Elsewhere, in Japan, data releases showed August retail sales fell more-than-expected, while July's industrial production unexpectedly fell.

Bonds

US Treasury prices rose, pushing 10-year yields to their lowest in almost four weeks, following the Fed's comments which increased the speculation that a third round of quantitative easing would be introduced. Spanish government bond prices fell for the first time in three weeks on speculation the nation will struggle to fund itself after its largest region, Catalonia, applied for financial aid and had its credit rating cut to junk status by Standard & Poor's. The Merrill Lynch over 5 year government bond index ended the week 0.6% lower.

Global Outlook

- Peripheral debt-induced stress remains a feature of the investment landscape, albeit that 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; it will likely provide more extraordinary stimulus at some stage soon. Elsewhere, other central banks are either neutral in their stance or have embarked on easing measures. The ECB cut rates as expected recently, but the focus is on this week's anticipated announcement regarding measures to address the peripheral debt crisis. Its official short term 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.

- This week, ECB head Draghi is expected to elaborate on the ECB's readiness to buy the bonds of peripheral countries such as Italy or Spain. Some scepticism remains and there have been many false dawns in the crisis to date. 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 14% so far this year. While this figure is flattered by a weaker euro exchange rate - in local currency terms markets are up 10% - 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 had a stronger couple of weeks on Draghi's comments, we believe that the rally will more likely fade than be sustained in the immediate period ahead. For now, we will stick with a close-to-neutral stance on equities, preparing to reduce from current levels.

- Zurich Life funds are 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
Zurich Life Assurance plc is regulated by the Central Bank of Ireland.
Intended for distribution within the Republic of Ireland.

ZURICH®