Zurich Life
Weekly Investment News

10th September 2012

ZURICH

Global Overview

Equity markets rally

Equity markets rose strongly as speculation mounted that further stimulus will be introduced from central banks worldwide, while the ECB at its latest meeting outlined a programme of its own.

US jobs data

US payrolls rose less-than-expected in August, increasing optimism that the Federal Reserve will follow through on its promise of further monetary stimulus to boost the economy. While the overall unemployment rate fell, this was attributed to people leaving the labour force rather than strong jobs growth.

European Central Bank

At its latest meeting, the ECB left interest rates unchanged at 0.75% but gave the market a boost by announcing details of its bond-purchase programme. The President of the Bank, Mario Draghi, announced a plan to buy bonds from the region's most indebted nations. Bond purchases for countries already under bailout programmes, including Ireland, Portugal and Greece, will also be considered, but only when they regain bond-market access.

Currencies

On currency markets, comments from the ECB helped the euro strengthen against most of its trading partners over the week. Elsewhere, the dollar weakened against most currencies after the weak jobs data. The €/$ rate ended the week at €1.28, a strengthening of almost 2%.

Oil

Oil prices started the week poorly, but gained late in the week amid expectations of monetary stimulus worldwide. The strengthening euro also contributed to the late gains. The West Texas oil price ended the week unchanged, slightly above $96 a barrel, after paring all of its losses. Elsewhere, gold rose 3% to $1,737.

	Index	Year to Date Return 31.12.11 to 07.09.12		1 Week Return 31.08.12 to 07.09.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	12.8	14.7	2.1	1.0
US	S&P 500	14.3	15.9	2.2	0.5
US	NASDAQ	20.4	22.0	2.3	0.5
Europe	FT/S&P Europe Ex. U.K.	12.1	12.1	3.0	3.0
Ireland	ISEQ	12.4	12.4	3.2	3.2
UK	FTSE 100	4.0	8.8	1.5	0.7
Japan	Topix	0.9	0.7	0.5	-1.0
Hong Kong	Hang Seng	7.4	9.0	1.6	-0.1
Australia	S&P/ASX 200	6.6	9.5	0.2	-0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	10.0	10.0	1.2	1.2

Global Equities

United States

Overview

US equities rose following some positive non-manufacturing data and amid speculation that further stimulus measures will be introduced in the wake of the US payroll data disappointing. The S&P 500 Index hit its highest level in four years during the week.

Intel – The world's largest semiconductor producer slashed its third-quarter sales projection amid declining demand for computers from corporate customers. In July, the company had scaled back its annual sales forecast amid slowing US and European sales. Its shares finished the week over 3% lower.

Europe

Overview

The European market posted its largest weekly gain in over three months, after investors cheered the ECB's latest move to try to aide the eurozone economy.

Banking stocks – Banks, most notably Italian, led European lenders to post the best performance over the week. Mote Paschi and UniCredit rallied 18% and 16% respectively, while France's Credit Agricole and Société Générale both rose close to 16%.

Ireland

Overview

The Irish market followed the eurozone market higher, rising 3% overall.

Fyffes – The company gained 6% on Monday after first-half profits rose and the company said full-year profit will be better-than-expected.

Asia Pacific

Overview

Asian markets gained as speculation mounted that the US and eurozone will act to stimulate their economies. China's government also announced it is stepping-up stimulus efforts to help economic growth, by introducing many infrastructure projects. The building of roads, port and warehouse projects and waterway upgrades were included in the programme. Korea's sovereign rating was upgraded by Fitch, which follows a recent upgrade by Moody's, boosting market sentiment.

Bonds

Bond prices of the eurozone's most indebted countries, most notably Spain, rose sharply, with 10-year bond yields in Spain 2% down from recent highs. This followed Mario Draghi's announcement of the ECB's new bond-purchase programme, to which investors responded well. The bank has agreed, in principle, to an unlimited debt-purchase programme to cap borrowing costs for peripheral nations that have applied for official aid from the EFSF/ESM. This decrease in perceived risk attached to peripheral country bonds resulted in prices of core countries, including Germany, falling over the week. The Merrill Lynch over 5 year government bond index ended the week 1.2% 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 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, 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 at least another two years. In addition, 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, which cut rates as expected recently, now has another programme in its arsenal which aims to solve the peripheral debt crisis. Its official short-term rates will stay exceptionally low for quite some time to come and even more additional measures are likely at some stage, with negative deposit rates a distinct possibility in some countries.

- Last week's ECB announcements caused a further sharp rally in peripheral debt, particularly in Spain. Given the history of announcements and false dawns, some scepticism remains. The measures are targeted at very short-dated bonds and should reduce uncertainty there. They may not be enough to dispel it across the full spectrum of bonds and that is where implementation risks are still very substantial. In addition, there are still concerns about the global risks to growth. Allied to this are low short rates, central bank buying under QE programmes in the US and UK and disinflation concerns. The combination of these 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 14.7% so far this year. This figure is slightly flattered by a weaker euro exchange rate - in local currency terms markets are up 12.8% - but nonetheless is 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. Equities have had a stronger couple of weeks in anticipation of, and reacting to, the latest ECB moves but we remain slightly cautious, more than bullish, at these levels for the immediate period ahead. For now, we will stick with a close to neutral stance on equities.

- 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®