

Global Overview

Mixed week for equity markets

Equity markets endured a choppy week as mixed economic data releases and concern about global growth prospects weighed negatively on investor sentiment.

US economic data

Existing home sales in August hit their highest level for more than two years, while single family home construction grew at the strongest pace since April 2010, signalling further improvement in the US housing market.

Eurozone economic data

The Markit eurozone composite purchasing managers' index unexpectedly fell from 46.3 in August to 45.9 in September, according to the preliminary "flash" reading. In other news, French business activity shrank in September, its fastest pace since April 2009.

Chinese manufacturing data

The latest HSBC China's purchasing managers' index revealed a preliminary reading of 47.8, indicating a contraction and is the 11th monthly decline.

Currencies

On currency markets, the euro retreated from the recent four-month high against the dollar as risk appetite returned to currency markets amid speculation that Spain could request a bailout package. The €/ \$ rate ended the week at €1.30, a fall of almost 1%.

Oil & Commodities

Among commodities, oil was the hardest hit suffering a \$4 fall per barrel on Monday alone. As the week progressed, this volatility continued as speculation about a possible release of US strategic reserves weighed on prices. The oil price ended the period at \$93 a barrel, 6.2% lower. Gold rose to \$1,787 an ounce at one point, its highest level for more than six months before ending the week at almost \$1,777.

	Index	Year to Date Return 31.12.11 to 21.09.12		1 Week Return 14.09.12 to 21.09.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	14.7	15.5	-0.5	0.5
US	S&P 500	16.1	15.7	-0.4	0.5
US	NASDAQ	22.1	21.7	-0.1	0.8
Europe	FT/S&P Europe Ex. U.K.	13.6	13.6	-0.3	-0.3
Ireland	ISEQ	15.2	15.2	1.2	1.2
UK	FTSE 100	5.0	9.7	-1.1	-0.1
Japan	Topix	3.8	1.9	-0.1	1.0
Hong Kong	Hang Seng	12.5	12.3	0.5	1.4
Australia	S&P/ASX 200	8.7	10.6	0.4	0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	9.9	9.9	0.5	0.5

Global Equities



United States

Overview

US equities had a choppy week with defensive sector (telecommunications & healthcare) one of the better performers, as the impact of the Federal Reserve's latest attempts to stimulate the economy began to lose momentum. Concern about prospects for global growth, in particular, weighed on risk appetite and the S&P500 index ended the week 0.4% lower, at 1,460.

Oracle – The technology giant reported that latest quarterly earnings were in line with analysts' expectations, but hardware revenue fell short of forecasts. Net income rose 6% to \$2.6 billion, but revenue decreased to \$8.21 billion compared with \$8.4 billion, one year ago.



Europe

Overview

European equities ended the week 0.3% lower, with investors' moving away from risk appetite, focusing on mixed economic data releases and concern that the eurozone was heading back towards recession. Eurozone banks trimmed recent gains amid uncertainty about whether Spain would apply for a bailout.

Vodafone – Speculation that the telecommunications giant could cut its ordinary dividend featured highly in the market news. Vodafone's 7.6% dividend yield is the largest among London blue chips companies. However, with European earnings suffering from falling demand the payout is heavily dependent on cash from its minority stake in US joint venture Verizon Wireless. Despite this, the stock managed to finish the week 2% higher.



Ireland

Overview

The Irish market was one of the few markets which bucked the trend, logging a 1.2% gain.

Aryzta – The food company has reported pre-tax profits of €444.1 million in the year to the end of July, almost 13% higher than the same period one year earlier. Revenue at the company rose 8.5% to €4.21 billion.



Asia Pacific

Overview

Weak Chinese manufacturing data disappointed markets and reignited global growth concerns last week. Despite, Asian equities retreating at times during the week, the Japanese Topix index managed to finish almost flat while Hong Kong's Hang Seng index logged a 0.5% gain. Elsewhere, the Bank of Japan commenced a fresh round of monetary stimulus, announcing it would increase its asset buying programme by 10 trillion yen to a total of 80 trillion yen.

Bonds

Bond markets advanced last week amid weaker economic growth figures. Core bond markets saw increased levels of demand from investors with the yield on the ten-year German bund falling 11 basis points to 1.60%. Elsewhere, Spain's ten-year yield briefly traded above 6% at one point but ended the week just below 6%. The Merrill Lynch over 5 year government bond index ended the week 0.5% higher.

Global Outlook

- The peripheral debt crisis remains centre stage for investment markets, albeit that recent ECB action has calmed the situation considerably. Equally 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 have risen recently but remain reasonably contained. Countries continue to display little interest in currency strength and this is a sign that the inflation concerns of policymakers remain modest.
- Short-term interest rates remain at emergency levels in the US with the Fed now intending to keep such levels for another three years. In addition, it will continue to provide more extraordinary stimulus. Elsewhere, other central banks are either neutral in their stance or have embarked on easing measures. The ECB 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.
- The ECB's recent announcement caused a sharp rally in peripheral debt, particularly in Spain. Given the history of such initiatives and false dawns some scepticism remains. The measures are targeted at very short-dated bonds and have reduced uncertainty there. They may not be enough to dispel it across the full spectrum of bonds and that is where implementation risks are still substantial. In addition, there are concerns about the global risks to growth. Other supporting factors for bond prices are low short rates, central bank buying programmes in countries outside the eurozone and residual 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 have gained around 15% so far this year – in euro and local currency terms - marking a very strong performance. Valuations continue to be seen as reasonable, albeit that they have risen in Europe given the recent rally and downgrading of earnings' expectations. 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 rallied a lot in the recent past partly in reaction to the latest ECB and Fed moves. Sentiment has become very positive and most markets moved into 'overbought' territory. Thus we are slightly cautious, thinking that markets are likely to consolidate recent gains or pull back from here.
- Zurich Life funds remain slightly 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, UK and Japan and close to neutral in Europe, the US and the Pacific region.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

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