Zurich Life
Weekly Investment News

1st October 2012

ZURICH

Global Overview

Equity markets retreat
Equity markets finished the week lower as risk appetite decreased following fiscal and economic uncertainty. However, many markets pared losses late in the week as investors awaited the Spanish stress test results and the Government unveiled its 2013 austerity budget.

US economic data
Data from the Institute of Supply Management-Chicago showed that its business barometer fell into contraction territory for the first time in three years. Elsewhere, consumer sentiment data also lagged expectations. The US's fiscal uncertainty was a key factor in the poor data.

Spanish stress tests
Spanish banks have a capital deficit of almost €60 billion according to tests designed to lift doubts about the financial industry's ability to absorb losses. This amount, however, is lower than previous estimates.

Currencies
On currency markets, the euro fell against the dollar after the weak US data described above, reducing demand for riskier assets, including the euro currency. The dollar strengthened against most of its major counterparts. The €/$ rate ended the week at €1.29, a fall of almost 1%.

Oil & Commodities
The oil price was volatile during the week. While it finished the week 1% lower, at $92 a barrel, it pared its losses after the Spanish government approved its austerity budget and speculation mounted that China's government will increase its stimulus efforts. Gold prices finished the week relatively unchanged at $1,772.

	Index	Year to Date Return 31.12.11 to 28.09.12		1 Week Return 21.09.12 to 28.09.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	13.0	14.6	-1.5	-0.8
US	S&P 500	14.6	15.3	-1.3	-0.4
US	NASDAQ	19.6	20.4	-2.0	-1.0
Europe	FT/S&P Europe Ex. U.K.	10.0	10.0	-3.2	-3.2
Ireland	ISEQ	13.0	13.0	-2.0	-2.0
UK	FTSE 100	3.0	8.0	-1.9	-1.5
Japan	Topix	1.2	0.7	-2.5	-1.3
Hong Kong	Hang Seng	13.1	14.0	0.5	1.5
Australia	S&P/ASX 200	8.1	10.2	-0.5	-0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	10.6	10.6	0.6	0.6

Global Equities

United States

Overview
US markets fell as the demand for equities reduced amid disappointing data in the country and worldwide. The S&P 500 Index fell 1.5%, which was its biggest weekly decline since June.

Apple – On the week that it released the iPhone 5, shares in the company fell almost 5% on profit-taking. This followed sales which missed some analysts' expectations, partly attributed to supply constraints delaying shipments.

Europe

Overview

European equities fell to the lowest level in over three weeks as economic data worldwide disappointed, amid fiscal uncertainty, and as investors awaited the results of the Spanish stress tests.

Electrocomponents – Shares in the company plunged almost 9%, their sharpest decline since March 2005, after the company said pre-tax profit would be "slightly below" the lower end of analyst expectations.

Ireland

Overview

The Irish market fell 2%, partly as a result of its largest stock, CRH, finishing the week over 4% lower.

Aryzta – Shares in the food company fell after it cut its forecasts for next year and warned that rising food prices will hit its net earnings. Its annual results also marginally missed expectations. Shares in the company fell over 5% on the day, but still remain higher since the start of the year.

Asia Pacific

Overview

It was a mixed week for Asian markets, with Japan's Topix falling 2.5% and the Hong Kong Hang Seng rising 0.5%. Asian markets had been affected by the poor economic data but pared losses on speculation that China will take new steps to boost its economy, once the leadership transition goes through at the National Congress on November 8th. Japan's market declined most after industrial production fell more-than-expected, while geo-political tensions between Japan and China, over territory, intensified.

Bonds

Spanish bond prices fell as the nation held off from seeking a bailout. If it accepted a bailout, it would enable the European Central Bank to buy its debt, as part of the programme which was announced in September. German bund prices rose somewhat as risk aversion returned. Overall, the Merrill Lynch over 5 year government bond index ended the week 0.6% higher.

Global Outlook

- The peripheral debt crisis remains centre stage for investment markets, albeit the anticipation of, and announcement of, additional ECB action had 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 intending to keep such levels until 2015. In addition, it will continue to provide more extraordinary stimulus. 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, albeit some of the gains were eroded last week. 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. We expect 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 14.5% year-to-date in euro terms – 13%in local currency terms - marking a very strong performance. Valuations continue to be seen as pretty reasonable, but have risen in Europe given the recent rally and downgrading of earnings' expectations. But it is investors' perception of the macroeconomic backdrop – often fuelled by the eurozone crisis - that has been the swing driver of sentiment this year. Equities had rallied a lot in the recent past, partly in reaction to the latest ECB and Fed moves. But sentiment had 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 industrials and consumer stocks and overweight technology. Geographically, the funds are underweight in Ireland, the UK and Japan and close to neutral in Europe, the US and the Pacific region.

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