Zurich Life
Weekly Investment News

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Global Overview

Most equity markets gain

Most main equity markets finished the week higher, after upbeat economic data releases including an encouraging US jobs report and falling unemployment rate, boosted investor risk appetite. On Thursday, the ECB President Mario Draghi's comments that the central bank's bond-buying programme had helped to reduce tensions in financial markets were well-received by markets.

US economic data

Latest US jobs report came in better-than-expected with employers adding 114,000 jobs in September and the jobless rate fell below 8%, the first time in almost four years, coming in at 7.8%.

Interest rates

As expected, the European Central Bank kept its main interest rate steady at 0.75% with ECB President Mario Draghi commenting that he expects growth "to remain weak in the near-term and to recover only gradually thereafter". Elsewhere, the Bank of England's Monetary Policy Committee maintained interest rates on hold at 0.5%, in line with expectations.

Chinese data

China's services sector grew at its slowest rate in two years with the official Purchasing Managers' (PMI) Services numbers showing a decline from 56.3 in August, to 53.7 in September, weighed by lacklustre new orders and weakened construction services.

Currencies

On currency markets, the euro remained close to a two-week high against the dollar after comments from ECB President Mario Draghi last Thursday encouraged European leaders to increase their debt-buying plan. The €/$ rate ended the week at €1.31, a gain of over 1%.

Oil & Commodities

The West Texas oil price retreated 2.5% lower over the week, finishing at under $90 a barrel. This came amid concern that the global economic outlook in addition to worries that increasing geo-political tensions could lead to a disruption in Middle East oil supplies. Elsewhere, the gold price ended the week, 0.5% higher at $1,781.

	Index	Year to Date Return 31.12.11 to 05.10.12		1 Week Return 28.09.12 to 05.10.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	14.8	14.8	1.6	0.2
US	S&P 500	16.2	15.3	1.4	0.0
US	NASDAQ	20.4	19.5	0.6	-0.7
Europe	FT/S&P Europe Ex. U.K.	12.9	12.9	2.6	2.6
Ireland	ISEQ	15.1	15.1	1.9	1.9
UK	FTSE 100	5.4	9.1	2.2	1.0
Japan	Topix	1.2	-1.8	0.0	-2.4
Hong Kong	Hang Seng	14.0	13.4	0.8	-0.5
Australia	S&P/ASX 200	10.8	9.5	2.4	-0.6
Bonds	Merrill Lynch Euro over 5 year Govt.	10.8	10.8	0.2	0.2

Global Equities

United States

Overview

US equity markets ended the week with solid gains after the latest jobs report showed a fall in the unemployment rate. The S&P 500 Index, finished the week 1.4% higher at almost 1,461.

Earnings season – Attention is now turning to the US third-quarter earnings season which kicks off this week. Alcoa's results are due for release on Tuesday. Although, the aluminium maker's results are expected to remain solid, it is expected to report a slowdown in manufacturing across the US, Eurozone and China.

Europe

Overview
European stocks ended the week 2.6% higher as positive macroeconomic and employment data underpinned risk appetite.

Tesco – The retailing giant's first-half pre-tax profit fell 12% to £1.66 billion, its first decline in twenty years, after it invested heavily in a UK turnaround plan and hit obstacles in central Europe and Asia.

Ireland

Overview
The Irish market traded in line with the rest of the world, ending the week 1.9% higher.

Ryanair – The low cost carrier benefited from a positive earnings announcement from its peer, Easyjet who raised their guidance due to better-than-expected yields from higher demand.

Asia Pacific

Overview
Asian equities were the laggards over the week, with the Hong Kong Hang Seng edging 0.8% higher while Japan's Topix ended unchanged. In other news, the Bank of Japan ended its latest policy meeting with no change in the country's key interest rate but the bank also said it would continue its asset buying programme which it announced last month. Elsewhere, Australia lowered interest rates by 25 basis points to 3.25% to combat weak foreign demand, its third cut in six months.

Bonds

Better-than-expected economic data and a further reduction in eurozone risk aversion boosted appetite for risk assets at times last week. Spain's ten-year bond yield fell 25 basis points to around 5.72% which is still below 7.5% level reached in July. Overall, the Merrill Lynch over 5 year government bond index ended the week 0.2% higher.

Global Outlook

- The peripheral debt crisis remains centre stage for investment markets albeit that the situation has calmed considerably of late. 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. 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 some time to come.

- Global equities have gained around 14.8% year to date in both euro and local currency terms marking a very strong performance. Valuations continue to be regarded 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 – mostly 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, UK and Japan and close to neutral in Europe, the US and the Pacific region.

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