Zurich Life
Weekly Investment News

22nd October 2012

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Global Overview

Equity markets gain
Equity markets rebounded from the previous week's losses after upbeat economic data, good earnings results and a statement from Moody's regarding Spain's credit rating.

US economic data
US housing starts well exceeded economists' forecasts, after jumping to an annual rate of 872,000 in September. With building permits also increasing, these gains may be sustainable. Elsewhere, retail sales rose strongly, while industrial output also rose, both of which topped forecasts.

European regulation
EU leaders agreed on a timetable to introduce common regulation of the euro area's 6,000 lenders by January. The 27 member states decided to put the framework for a single regulator in place by the end of this year.

Currencies
On currency markets, stronger-than-expected economic data boosted the demand for higher-yielding currencies over the week. The €/$ rate strengthened slightly to end the week at €1.30.

Oil
Despite the forecast-beating economic reports released during the week, the West Texas oil price fell overall, partly attributed to some disappointing quarterly earnings and sales forecasts, raising concern that slowing economic growth will reduce oil demand. The price fell 2%, to $90 a barrel, over the week.

	Index	Year to Date Return 31.12.11 to 19.10.12		1 Week Return 12.10.12 to 19.10.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	14.0	14.1	1.3	0.8
US	S&P 500	14.0	13.4	0.3	-0.2
US	NASDAQ	15.4	14.8	-1.3	-1.8
Europe	FT/S&P Europe Ex. U.K.	13.1	13.1	2.1	2.1
Ireland	ISEQ	11.7	11.7	0.0	0.0
UK	FTSE 100	5.8	8.7	1.8	0.8
Japan	Topix	3.5	0.0	5.0	3.3
Hong Kong	Hang Seng	16.9	16.6	2.0	1.4
Australia	S&P/ASX 200	12.7	13.0	1.9	2.3
Bonds	Merrill Lynch Euro over 5 year Govt.	11.9	11.9	0.1	0.1

Global Equities

United States

Overview
The S&P 500 Index gained early in the week on the back of upbeat economic data, but these gains were pared after some disappointing earnings results. With earnings' season in full swing, of the 117 companies that have reported earnings so far, 69% have exceeded analysts' expectations.

Results – Citigroup rose strongly after reporting a surprise third-quarter profit and surge in bond-trading revenue, while Bank of America and Goldman Sachs also beat forecasts. However, Google, Microsoft and IBM fell 9%, 2% and 7% respectivley, after missing estimates.

Europe

Overview

European stocks gained during the week after Moody's reiterated its stance on Spain's credit rating and the US economic reports boosted the global economic outlook.

Stocks – The French steelmaker, ArcelorMittal, saw shares rise 10% after a report said the company is considering the sale of a minority stake in its Canadian iron-ore unit. Man Group, the world's biggest publically traded hedge-fund manager, announced that outflows increased 57% in Q3, causing its shares to slump 10%.

Ireland

Overview

The Irish market finished the week unchanged, with CRH, its largest holding, rising 1% and Ryanair remaining flat.

Asia Pacific

Overview

Asian equities were strong over the week, with the Hong Kong Hang Seng Index gaining 2%, while Japan's Topix Index erased its previous week's losses, rising a healthy 5%. Markets in the region were boosted by the improvement in the global economic picture, boosting demand for exports. Data in the region were also strong, with China's factory production and retail sales both rising strongly. This data, along with other data in October, increased speculation that China's economy bottomed out in August or September.

Bonds

The Spanish 10-year bond price rose for another week, pushing its yield to its lowest level in over six months, after Moody's Investors Service kept the nation's credit rating at investment-grade. This eased fears that indices would be forced to sell its debt if it had been downgraded. The Italian yield also fell to recent lows after receiving orders of €18 billion for its latest bond offering, double that of its previous two offers combined. Overall, the Merrill Lynch over 5 year government bond index was relatively unchanged over the week.

Global Outlook

- The peripheral debt crisis remains a distinct focus for investment markets, albeit 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 once again moderated and 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% 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 and more generally as well 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 even 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 more neutral in other areas. 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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