Zurich Life
Weekly Investment News
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Global Overview

Equity markets fall

Equity markets erased some of their recent gains after a range of economic reports disappointed investors, while earnings' releases were quite mixed.

US economic growth

The US economy expended more than forecast in Q3, when it grew at an annual rate of 2%. An improvement in consumer spending, government outlays and residential construction were among the main contributors. This rate is up from a 1.3% expansion in Q2.

Spanish data

Spain's unemployment rate rose to a record high of 25% in Q3, up just over 1% from the previous quarter. Elsewhere, GDP data for the country showed that it contracted for a fifth-successive quarter.

Currencies

On currency markets, the euro fell versus the dollar after an unexpected fall in German business confidence and French consumer sentiment, along with the disappointing Spanish data, increased the demand for the US dollar, regarded as the world's safest currency. The €/$ rate weakened 0.7% to end the week at 1.29.

Oil

The West Texas oil price fell sharply over the week as a result of the earnings and economic data. However, some of these losses were pared on Friday as Hurricane Sandy was expected to disrupt East Coast refinery production and the US recorded economic growth in Q3. The price finished the week almost 5% lower at $86 a barrel.

	Index	Year to Date Return 31.12.11 to 26.10.12		1 Week Return 19.10.12 to 26.10.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	12.3	13.1	-1.5	-0.9
US	S&P 500	12.3	12.5	-1.5	-0.8
US	NASDAQ	14.7	14.9	-0.6	0.1
Europe	FT/S&P Europe Ex. U.K.	11.1	11.1	-1.8	-1.8
Ireland	ISEQ	11.7	11.7	0.0	0.0
UK	FTSE 100	4.2	8.4	-1.5	-0.3
Japan	Topix	1.7	-1.5	-1.7	-1.5
Hong Kong	Hang Seng	16.9	17.3	0.0	0.6
Australia	S&P/ASX 200	10.3	11.7	-2.2	-1.0
Bonds	Merrill Lynch Euro over 5 year Govt.	11.5	11.5	-0.3	-0.3

Global Equities

United States

Overview

The S&P 500 Index erased some of its recent gains as investors focused on mixed economic data and mixed corporate earnings data. At present, 71% of companies that have reported earnings have exceeded analysts' expectations; worryingly though, 59% have missed sales forecasts.

US elections & fiscal cliff – Focus moved to the upcoming US Preseidential elections as Mitt Romney continued to gain support in the polls over President Obama. The market is also focussed on the US 'fiscal cliff' and whether an agreement can be reached by early-January 2013.

Europe

Overview

European stocks finished the week lower as earnings results and economic data in the region, especially from Spain, disappointed investors.

Ericsson – The world's largest maker of mobile-phone networks reported a Q3 gross margin that missed analysts' estimates. Gross margin is the percentage of sales remaining after production costs are accounted for. Its shares fell 4%.

Ireland

Overview

The Irish market finished the week unchanged overall.

C&C – The drinks group reported operating profits of €65 million for the six months to the end of August. This was down 2.7% on the same time last year. Its shares rose strongly on the acquisition of Vermont Hard Cider Company, the number one US cider manufacturer.

Asia Pacific

Overview

Like the rest of the world, Asian equities finished the week lower following earnings data in the region which missed expectations. The Hong Kong Hang Seng Index finished the week unchanged, while Japan's Topix Index fell just short of 2%. The weakening euro helped to pare Japanese losses and turn positive the Hong Kong return, for the euro investor. Chinese industrial companies' profits rose last month for the first time in six months, increasing expectations the economy is picking-up from a seven-quarter slowdown. An increase in the preliminary Chinese PMI in October was also encouraging.

Bonds

Spanish 10-year bond prices had their worst week since August following somewhat disappointing jobs and GDP data. Further to this data, speculation grew that Prime Minister, Mariano Rajoy's, regional election victory gives him more room to delay seeking a bailout. German bund prices rose as a gauge of business confidence fell to its lowest since February 2010, spurring demand for the region's safest securities. The Merrill Lynch over 5 year government bond index was 0.3% lower 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 dissipated for now. Growth expectations have moderated during the course of the year and the macroeconomic backdrop is unscientifically characterised as 'ok' but below trend. Inflation expectations have once again moderated and remained 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 look set to stay at emergency levels in the US until 2015; in addition, the Fed will continue to provide more extraordinary stimulus. Other central banks are generally either neutral in their stance or have also embarked on easing measures. The ECB now has another programme in its arsenal – Outright Monetary Transactions (OMT) - 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.
- Possible future action by the ECB under its OMT programme – which would target short-dated bonds - caused a sharp rally in peripheral debt, particularly in Spain. Given the history of such initiatives and false dawns some scepticism remains. OMT may not be enough to dispel uncertainty 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 13% year-to-date in euro terms – 12% in local currency terms - marking a very strong performance. Valuations have risen somewhat due to rising prices and, more recently, downgraded 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, partly in reaction to the latest ECB and Fed moves. Sentiment had become very positive and left markets vulnerable to some concerns over the cyclical earnings' picture or new eurozone worries. Thus, we are staying somewhat cautious for now, thinking that markets could consolidate further 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 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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