Zurich Life
Weekly Investment News

5th November 2012

ZURICH

Global Overview

Equity markets gain
In a disrupted week for markets, due to the effects of 'superstorm' Sandy, equities finished up overall as optimism mounted about the outlook for the global economy.

US data
The final employment numbers before the US presidential election showed that the economy added 171,000 jobs in October, well above the consensus expectation. There were also substantial upward revisions to previous months' readings.

China bottoming out?
Chinese purchasing managers' figures showed that manufacturing had expanded in October for the first time in three months, stoking the belief that the economy may have bottomed out after a somewhat worrying slow patch.

Currencies
The US dollar hit its highest level in nearly two months in the wake of the strong employment numbers on Friday. It gained on the euro, sterling and Swiss franc as investors appeared to reduce expectations of further quantitative easing. The €/$ rate finished the week at 1.28.

Commodities
Commodity prices fell, in some cases sharply, hand-in-hand with the dollar's strength. Gold fell to a two-month low, dropping below $1,680 a troy ounce for the first time since August, while Brent oil also slid to its lowest level since early August, closing close to $106 a barrel.

	Index	Year to Date Return 31.12.11 to 02.11.12		1 Week Return 26.10.12 to 02.11.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	13.2	14.5	0.7	1.2
US	S&P 500	12.5	13.5	0.2	0.8
US	NASDAQ	14.5	15.5	-0.2	0.5
Europe	FT/S&P Europe Ex. U.K.	13.0	13.0	1.7	1.7
Ireland	ISEQ	14.2	14.2	2.2	2.2
UK	FTSE 100	5.3	9.8	1.1	1.4
Japan	Topix	3.2	-0.4	1.5	1.1
Hong Kong	Hang Seng	19.9	21.3	2.6	3.3
Australia	S&P/ASX 200	9.9	12.2	-0.3	0.5
Bonds	Merrill Lynch Euro over 5 year Govt.	12.0	12.0	0.4	0.4

Global Equities

United States

Overview
The US market experienced an unusual week, being closed unexpectedly on Monday and Tuesday due to the effects of superstorm Sandy. From there, it went on to close virtually flat in local currency terms, though positive in euro terms due to dollar strength.

US elections & fiscal cliff – The US market exhibited visible twitchiness as Tuesday's presidential election drew closer. With economic numbers seemingly improving, investors have switched their attention to the outcome of the election and the looming fiscal cliff issue.

Europe

Overview

European stocks finished the week with decent gains, helped along by encouraging US economic data and some positive earnings' reports from European companies.

Richemont – The Swiss luxury goods maker (maker of Cartier jewellery) jumped nearly 9% on the week. Better news about the Chinese economy, where it enjoys strong sales, and an upgrade from Bank of America Merrill Lynch contributed to the leap.

Ireland

Overview

The Irish market finished the week up over 2%, with CRH leading the way. The largest stock in the index has risen strongly over the past week, ahead of its 'Investor Day', where it is expected to provide further cost-cutting guidance. On Monday morning, Ryanair rose 7% after announcing a 10% increase in profits for the six-month period ended 30th September.

Asia Pacific

Overview

Asian equities had a decent week, particularly Hong Kong, which rose 2.6%. Recent economic news from China has been better, suggesting that the worst is over in that economy. Manufacturing is on the rise and the economy is also being supported by numerous infrastructural projects. Cyclicals clearly outperformed defensives, as building materials rallied more than 10%. In Japan, Panasonic fell nearly 17%, to a 38-year low, following news of a net loss of nearly 700bn yen last quarter. The overall Japanese Topix index rose 1.5% on the week.

Bonds

Core bonds remained in demand in the eurozone last week, with the yield on the 10-year bund falling to 1.44% on Friday, partly due to weaker manufacturing data out of the eurozone. Peripheral yields came under pressure, however, as Spain appeared no closer to requesting aid from the ESM and OMT mechanisms and, indeed, announced further issuance for this week. Overall, the Merrill Lynch Over 5 Year Government Bond Index was 0.4% higher 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 remain 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 false dawns in this crisis, some scepticism remains; indeed, some of the recent gains have been eroded in the past couple of weeks. OMT may not be enough to dispel uncertainty across the full spectrum of bonds and implementation risks are still substantial. Supportive factors for bonds in the major markets 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 euro terms – 13% 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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