Zurich Life
Weekly Investment News

12th November 2012

ZURICH

Global Overview

Equity markets ship hefty losses
Global equities moved sharply downwards over the week, as mounting fears about the US fiscal cliff and the deteriorating economic situation within the eurozone dominated the post-US election headlines.

US election outcome
While President Obama was, in the end, re-elected comfortably enough and the Democrats increased their hold on the Senate, the House remains in Republican hands, leading to fears of further gridlock in the coming months on important issues of economic policy.

Improving China
Figures last week in China showed growth in industrial production and an acceleration in retail sales, while inflation slowed unexpectedly, further evidence of an improvement in the overall economy.

Currencies
The safe haven currencies of the US dollar and the Japanese yen both rose strongly over the week, the dollar reaching two-month highs. It was not just a tale of dollar strength, however. The euro was weakened by fresh concerns about Greece and Spain, as well as weaker numbers out of Germany.

Interest rates
Both the European Central Bank and the Bank of England left key interest rates unchanged at their meetings last week, at 0.75% and 0.5% respectively.

	Index	Year to Date Return 31.12.11 to 09.11.12		1 Week Return 02.11.12 to 09.11.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	11.0	13.3	-1.9	-1.0
US	S&P 500	9.7	11.8	-2.4	-1.6
US	NASDAQ	11.5	13.6	-2.6	-1.8
Europe	FT/S&P Europe Ex. U.K.	11.1	11.1	-1.7	-1.7
Ireland	ISEQ	13.5	13.5	-0.6	-0.6
UK	FTSE 100	3.5	8.3	-1.7	-1.6
Japan	Topix	0.3	-1.1	-2.8	-0.9
Hong Kong	Hang Seng	16.0	18.4	-3.3	-2.5
Australia	S&P/ASX 200	10.0	13.6	0.0	1.2
Bonds	Merrill Lynch Euro over 5 year Govt.	12.6	12.6	0.5	0.5

Global Equities

United States

Overview
The US market experienced two days of sharp losses following Tuesday's presidential election, with the S&P 500 Index falling through the 1,400 mark for the first time since September.

US elections & fiscal cliff – While there were some suggestions from analysts that there had been a certain amount of portfolio positioning in the expectation of a Republican victory, the bigger issue seemed to be a renewed and serious focus on the upcoming fiscal cliff issue which has the potential to hurt US economic growth.

Europe

Overview

European stocks could not ignore events elsewhere and fell with the rest. Rising domestic worries over the state of the eurozone economy only exacerbated international effects, with the European Commission cutting its 2013 growth forecast to only 0.1%, from 1.0%.

Banks – Eurozone banks were particularly weak. Crédit Agricole fell almost 7% on the week, after posting a €2.85 billion loss for the third quarter, while Commerzbank, Deutsche Bank, BBVA and Banco Santander also all fell heavily.

Ireland

Overview

The Irish market fell less than most others, buoyed by the performance of Ryanair (+8.4%) in the wake of its release of strong results on Monday. It reported a 10% increase in profits for the six-month period ended 30th September, with revenues up 15% to €3.1bn. It also raised its full-year guidance to between €490 - €550 million, a substantial rise on earlier estimates.

Asia Pacific

Overview

Asian equities could not escape the general malaise and fell, in some cases, sharply. Hong Kong, for instance, fell 3.3%, despite a series of economic indicators showing an across-the-board improvement in China. The 18th Communist Party Congress kicked off last week also, marking the formal handover of power to the next generation. In Japan, the Topix index fell 2.8% on the week, with all but one of the 33 sectors ending in negative territory and 14 of them falling more than 4%.

Bonds

Core bonds were in heavy demand as investors took fright and exited equities. The yield on the German 10-year bund fell 11 basis points, to 1.34%, while yields in the US also fell. Peripheral eurozone spreads came under pressure, though Spain did succeed in raising €4.76bn across a range of maturities, completing its funding target for 2012. This, however, was seen in a somewhat negative light, as it seemed to suggest that Spain will be in no hurry to apply for OMT (see below), further prolonging uncertainty. Overall, the Merrill Lynch Over 5 Year Government Bond Index was 0.5% higher over the week.

Global Outlook

- 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. The euro was been weak recently but this is as much about generalised dollar strength as euro weakness. Debt-related issues remain a distinct worry for investors, with this year's focus on the peripheral eurozone crisis now being added to by concerns over the US 'fiscal cliff'.

- 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 three 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 13% year-to-date in euro terms – 11% 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, renewed eurozone worries and the US fiscal position. Thus, we are staying somewhat cautious for now, thinking that markets could consolidate further or pull back slightly more 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.

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie
Zurich Life Assurance plc is regulated by the Central Bank of Ireland.
Intended for distribution within the Republic of Ireland.

ZURICH®