

## Global Overview

### Equity markets rise

Equity markets moved slightly higher over the week as, data, especially in Asian, progress in budgetary talks in the US and an agreement on the Greece debt plan boosted sentiment.

### US data

Data released last week showed an unexpected drop in consumer spending. While superstorm Sandy reduced working hours and wages, consumers are also watching lawmakers try to find ways to avoid the so-called fiscal cliff.

### European bond downgrade

Both the European Stability Mechanism and European Financial Stability Facility were downgraded by one notch, by Moody's Investors Service late in the week. Moody's cited a 'high correlation in credit risk present among entities' largest financial supporters'.

### Italian unemployment rises

Unemployment in Italy rose more-than-expected in October, to reach 11.1%, its highest level in 13 years.

### Currencies

The euro strengthened to a one-month high after eurozone lawmakers approved Greece's latest rescue package. It was also supported by the uncertainty surrounding the budget talks in the US. The €/ \$ rate finished the week at 1.30.

### Commodities

The West Texas oil price gained almost 1% after some pieces of US and Chinese economic data signalled expansion. The MNI Chicago Report's business barometer was one economic report which helped. The price finished the week at \$89 a barrel. Gold fell 2% on concern US lawmakers will fail to reach an agreement aimed at avoiding self-imposed tax increases and budget cuts.

	Index	Year to Date Return 31.12.11 to 30.11.12		1 Week Return 23.11.12 to 30.11.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	14.2	14.1	0.8	0.5
US	S&P 500	12.6	12.2	0.5	0.4
US	NASDAQ	15.5	15.2	1.5	1.3
Europe	FT/S&P Europe Ex. U.K.	14.3	14.3	1.0	1.0
Ireland	ISEQ	13.4	13.4	0.8	0.8
UK	FTSE 100	5.3	8.5	0.8	0.6
Japan	Topix	7.3	-0.3	0.6	0.4
Hong Kong	Hang Seng	19.5	19.4	0.5	0.4
Australia	S&P/ASX 200	11.1	12.6	2.1	1.6
Bonds	Merrill Lynch Euro over 5 year Govt.	14.2	14.2	1.5	1.5

## Global Equities



### United States

#### Overview

The US market gained for yet another week, as, amongst some positive economic reports, investors took an optimistic view on the progress of the government budget negotiations. The tech-heavy NASDAQ gained strongly as online spending surged 17% over the Thanksgiving holiday period.

**Stocks** – Amazon and Ebay saw shares rally over 5% as a result of the strong post-Thanksgiving online spending. However, Macy's and Target saw shares drop after November same-store sales trailed analysts' estimates.



## Europe

### Overview

European markets were strong on the back of reports signalling expansion in China and optimism about the budget talks in the US. The debt agreement deal for Greece also eased fears of default and boosted equity markets.

**HeidelbergCement** – Shares in the German company, which is the world's third-largest maker of cement, rose 6% over the week. The stock was helped by Morgan Stanley upgrading it to a buy and naming it as its top pick in the cement business.



## Ireland

### Overview

The Irish market rose four of the five days last week, rising almost 1% overall. Upbeat data in many regions contributed to this rise.



## Asia Pacific

### Overview

Asian equities gained as China's manufacturing index rose to its highest level in seven months. New orders and increased export demand were strong components in the index, raising optimism that the economy is recovering after a seven-quarter slowdown. Japan's Topix and Hong Kong's Hang Seng Indices both rose roughly 0.5%, adding to their 3% gain the previous week. Elsewhere, India's economy slowed last quarter to a three-year low as domestic spending and exports moderated. The rupee has weakened almost 4% against the US Dollar in the past year due to the slowdown in the economy.

## Bonds

European bond markets were strong, with both core and peripheral yields moving lower. Data releases showing rising unemployment and easing inflation pressures in the eurozone lent support to core markets, pushing Austrian and Belgian bonds to record low yields, but most attention was on the periphery. Agreement to ease the Greek debt burden was a catalyst for a further rally in Italian and Spanish bonds, pushing Italian 10yr yields to a two year low. Overall, the Merrill Lynch over 5 year government bond index gained 1.5%.

## Global Outlook

- Growth expectations have moderated during the course of the year and the macroeconomic backdrop is unscientifically characterised as 'ok but below trend'. Meanwhile inflation expectations remain contained although gold remains strong against most currencies. Countries continue to display little interest in currency strength and this is generally a sign that the inflation concerns of policymakers remain modest. Debt-related issues remain a distinct 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 significant volumes of '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 – has supported bond prices in peripheral countries, particularly in Spain. Given the history of false dawns in this crisis some scepticism remains. OMT may not be enough to dispel uncertainty across the full spectrum of bonds and implementation risks are still substantial. Helpful factors for bonds in the major markets include 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 performed very strongly this year, gaining 14% in both euro and local currency terms. Valuations have risen somewhat during the year due to higher prices and downgraded earning' 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. Sentiment had become very positive and left markets vulnerable to concerns over the cyclical earning's picture, renewed eurozone worries and the US fiscal 'cliff'. This left markets vulnerable to the type of a correction which we saw in the last number of weeks and gave us the opportunity to close our underweight equity position.
- Zurich Life funds are now much closer to neutral equities and remain overweight bonds versus the manager average. Within equity sectors, we remain somewhat underweight basic materials, industrials and consumer stocks and more neutral in other areas. Geographically, the funds are underweight in Ireland and the UK, neutral in Japan, Europe and the US and overweight the Pacific region.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

### Zurich Life Assurance plc

Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.

Telephone: 01 283 1301 Fax: 01 283 1578 Website: [www.zurichlife.ie](http://www.zurichlife.ie)

Zurich Life Assurance plc is regulated by the Central Bank of Ireland.

Intended for distribution within the Republic of Ireland.

