# Zurich Life
# Weekly Investment News

10th December 2012

ZURICH

# Global Overview

### Equity markets rise

Most equity markets moved higher during the week as data in the US and China pointed to further economic recovery. Budget talks in the US and weak growth forecasts in the eurozone weighted on markets, however.

### US jobs data

US non–farm employment increased by 146,000 in November, pushing the unemployment rate down to 7.7%. This expectation-beating increase points to a gathering momentum in the economy's recovery. However, consumer confidence fell more-than-expected as budget talks continued without much progress, increasing consumers' fears of higher taxes next year.

### Weak German outlook

Germany's central bank cut its forecast for 2013 economic growth from 1.6% to 0.4%. The ECB also lowered its growth forecasts for the eurozone, boosting the possibility of a further cut in interest rates.

### Currencies

Over the week, the dollar strengthened against most major currencies on the back of better-than-expected US economic releases, most notably the jobs data, along with the downward revisions to the ECB's growth forecast. The €/$ rate finished the week at 1.29, a weakening of 0.5%.

### Commodities

The West Texas oil price experienced its first weekly loss in over a month, after the dollar rose against major currencies and the ECB's cutting of growth forecasts in the region. The price finished the week at $86 a barrel, over 3% lower on the week. Gold fell for another week on concerns 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 07.12.12 | | 1 Week Return 30.11.12 to 07.12.12 | |
|---|---|---|---|---|---|
| | | Local Currency % | Euro % | Local Currency % | Euro % |
| Global | FTSE World | 14.9 | 15.5 | 0.6 | 1.2 |
| US | S&P 500 | 12.8 | 12.8 | 0.1 | 0.6 |
| US | NASDAQ | 14.3 | 14.5 | -1.1 | -0.6 |
| Europe | FT/S&P Europe Ex. U.K. | 15.6 | 15.6 | 1.1 | 1.1 |
| Ireland | ISEQ | 15.4 | 15.4 | 1.7 | 1.7 |
| UK | FTSE 100 | 6.1 | 9.9 | 0.8 | 1.3 |
| Japan | Topix | 8.5 | 1.6 | 1.1 | 1.8 |
| Hong Kong | Hang Seng | 20.4 | 20.8 | 0.7 | 1.2 |
| Australia | S&P/ASX 200 | 12.2 | 14.9 | 1.0 | 2.0 |
| Bonds | Merrill Lynch Euro over 5 year Govt. | 14.4 | 14.4 | 0.2 | 0.2 |

# Global Equities

## United States

### Overview

The US market gained for the third successive week as the stronger-than-expected jobs data overshadowed a drop in consumer confidence amid the ongoing uncertainty around the budget talks, which are aimed at trying to avoid the so called Fiscal Cliff.

**Apple** – Shares in the company fell almost 8% last week, bringing the recent decline from its record-high to 25%. Research showing the firm as sixth in the Chinese phone market and fears its dominance in the tablet market is under threat from competitors, were among the reasons suggested for the week's fall.

## Europe

### Overview

European markets rallied for the third week, reaching an 18-month high, as optimism increased that the US and China were showing further signs of recovery outweighed the concerns surrounding the cutting of 2013 growth forecasts in the eurozone.

**Nokia** – The mobile-phone maker saw its shares continue their recovery with a 14% rise on the back of the company winning a deal to sell its flagship smartphone in China.

## Ireland

### Overview

The Irish market rose strongly during the week, finishing 1.7% higher overall. Although only a small percentage of the index, Bank of Ireland, along with other banking stocks, enjoyed a strong week, finishing 9% higher overall.

## Asia Pacific

### Overview

Asian equities followed the worldwide trend and moved higher over the week. Japan's Topix and Hong Kong's Hang Seng Indices moved roughly 1% higher. According to a statement released, the Chinese government, under new leader Xi Jinping, will keep macroeconomic policies stable and make adjustments as needed to deal with any difficulties. It also said it would boost urban development, helping shares of construction-related stocks rise over the week. This, along with gains in US services and factory orders, boosting exports from the region, contributed to markets rising.

# Bonds

Italian bond prices declined, pushing yields higher after former Premier, Silvio Berlusconi, threatened to withdraw his party's support for Prime Minister Mario Monti's coalition government. He said the administration failed to develop a strategy to halt the recession. German bunds rose amid speculation the ECB will cut interest rates, following a report showing the country's industrial production decline in October. Overall, the Merrill Lynch Over 5 Year Government Bond Index gained 0.2%.

# Global Outlook

- Growth expectations have moderated during the course of 2012 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 regions.

- Possible future action by the ECB under its OMT programme – which would target short dated bonds – has supported bond prices in peripheral countries for a number of months, particularly Spain. Some scepticism remains since OMT may not be able to dispel uncertainty across the full spectrum of bonds. Implementation risks are still substantial and recent developments within Italian politics remind investors of the non-economic dimension to the debt crisis. 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 15% 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. In this regard, while sentiment is not quite sanguine, it is reasonably positive nonetheless; the view being that the US fiscal 'cliff' will be addressed and that the risks of extreme events in the eurozone has been removed. Allied to this is the perception that December and January seasonal trends are helpful to the market, making investors reluctant to make large portfolio changes in the next few weeks.

- 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 energy, basic materials and industrials 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.



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®