Zurich Life
Weekly Investment News

17th December 2012

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Global Overview

Most equity markets rise

Eventhough there were strong economic releases worldwide, it was a mixed week for equities overall due to concerns about the ongoing budget talks. Asian markets were the standout performers, after China showed further signs of economic recovery.

Budget talks

After their third meeting, President Obama and Republican House Speaker John Boehner remain deadlocked on next year's budget. More than $600 billion in tax increases and spending cuts are scheduled to start taking effect in January unless Congress provides a resolution.

US economic data

Data released over the week showed retail sales and industrial production rebounded in November, while jobless claims declined to a nine-week low. The Federal Reserve also announced plans to buy $45 billion a month, starting in January, of Treasury securities to help boost growth.

China

Industrial production and retail sales beat economists' estimates, adding to optimism that the Chinese economy is showing further signs of recovery.

Currencies

The dollar weakened sharply against most major currencies over the week, partly as a result of the latest inflation reading being lower-than-expected, signalling the Fed's stimulus measures aren't inflationary. The €/$ rate finished the week above 1.31, a strengthening 2%.

Commodities

The West Texas oil price rose after strong economic data in both the US and China, the world's two biggest crude-consuming countries. The price finished the week at almost $87 a barrel, a weekly gain of 1%. Gold fell for another week on concerns surrounding the US budget talks.

	Index	Year to Date Return 31.12.11 to 14.12.12		1 Week Return 07.12.12 to 14.12.12	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	15.3	14.6	0.4	-0.8
US	S&P 500	12.4	10.6	-0.3	-2.0
US	NASDAQ	14.1	12.3	-0.2	-2.0
Europe	FT/S&P Europe Ex. U.K.	16.2	16.2	0.5	0.5
Ireland	ISEQ	14.7	14.7	-0.6	-0.6
UK	FTSE 100	6.3	9.1	0.1	-0.8
Japan	Topix	9.9	-0.2	1.4	-1.7
Hong Kong	Hang Seng	22.6	20.9	1.9	0.1
Australia	S&P/ASX 200	13.0	14.6	0.7	-0.2
Bonds	Merrill Lynch Euro over 5 year Govt.	14.6	14.6	0.2	0.2

Global Equities

United States

Overview

The US market fell slightly for the first in a month as worries surrounding the budget talks overshadowed the Fed's further quantitative easing announcement and better-than-expected economic data.

Apple – It was another bad week for the tech giant after a few analysts cut their price forcasts for its shares. Concerns cited included fears that growth may slow for the iPhone and iPad. Its shares fell over 4% during the week.

Europe

Overview

European markets rose marginally as, like the US, concern grew that an agreement on the budget will not be reached offset optimism that the euro area will get a single banking regulator.

Autos – Shares in the auto sector were the strongest in Europe last week. Peugeot saw shares soar 16% after it said it would cut 1,500 jobs by 2014, while Renault's shares rose 6% as it sold its remaining stake in Volvo SB for almost $2 billion.

Ireland

Overview

In a quiet week for Irish shares, the ISEQ traded in a tight range and finished the week slightly lower.

Asia Pacific

Overview

Asian equities were the strongest over the week as upbeat economic releases worldwide supported the region's markets. Japan's Topix and Hong Kong's Hang Seng indices both moved over 1% higher. Stronger industrial production and retail sales in China helped boost gains in the region. Chinese stocks listed in Shanghai had their biggest weekly gain in three years, playing catch-up with Chinese stocks listed in Hong Kong which have been rallying since early-September on the better data.

Bonds

Spanish bond prices advanced for the third week in four as its borrowing costs fell at a debt sale and European leaders signed off on the latest tranche of aid for Greece. Elsewhere, demand for the regions safest assets, which include German bunds, saw prices fall following the approval of the Greek payout and also the laying of groundwork for a supranational bank supervisor. Overall, the Merrill Lynch over 5 year Government Bond Index gained 0.2%.

Global Outlook

- Global growth expectations are unscientifically characterised as 'ok but below trend' at the moment. Meanwhile inflation expectations remain contained but interestingly gold has been strong against most currencies during the year. Countries continue to display little interest in currency strength – witness the recent discussions regarding the policy of Japan towards its currency - 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 close to 15% in both euro and local currency terms. Valuations have risen 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; with the consensus view seeing most risks such as the US fiscal 'cliff' benignly. Equally the risks of extreme events in the eurozone has been lowered considerably. 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

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