Zurich Life
Weekly Investment News

4th February 2013

ZURICH

Global Overview

Equity markets rise again
Almost all equity markets enjoyed another positive week, supported mainly by upbeat global economic data, along with further expectation-beating corporate earnings.

US economy
The US economy shrank at an annualised rate of 0.1% in the fourth quarter of 2012 as fiscal cliff concerns weighed on business investment, resulting in a big drop in business inventories. In January, US employers added a further 157,000 jobs, following on from 196,000 the previous month.

Eurozone recovery
An index of executive and consumer sentiment in the region climbed to its highest level since June 2012, adding to signs that the region's debt crisis is easing. Also last week, a gauge of manufacturing rose to its highest in almost a year. The gauge, however, is still below the level that indicates expansion.

Currencies
The dollar fell to its lowest level against the euro since November 2011 as a strengthening jobs market and expectations that the Fed will sustain stimulus boosted investors' risk appetite. The €/$ rate finished the week just shy of 1.37, a strengthening of almost 2% over the week.

Oil
Following the upbeat economic data worldwide, most notably in the US, the West Texas oil price ended the week on a high, capping its longest run of weekly gains in over eight years. The price finished the week at almost $98 a barrel, a weekly gain of 2%.

	Index	Year to Date Return 31.12.12 to 01.02.13		1 Week Return 25.01.13 to 01.01.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.7	1.5	0.6	-0.9
US	S&P 500	6.1	2.4	0.7	-0.9
US	NASDAQ	5.3	1.6	0.9	-0.7
Europe	FT/S&P Europe Ex. U.K.	4.2	4.2	-0.5	-0.5
Ireland	ISEQ	5.2	5.2	0.6	0.6
UK	FTSE 100	7.6	0.6	1.0	-1.1
Japan	Topix	9.6	-0.9	2.8	-0.5
Hong Kong	Hang Seng	4.7	1.0	0.6	-1.1
Australia	S&P/ASX 200	5.9	2.5	1.8	0.3
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.7	-0.7	-0.2	-0.2

Global Equities

United States

Overview
The S&P 500 Index rallied for another week, as the strong economic data, combined with better-than-expected earnings results, increased investors' risk appetite. Just below 70% of companies that have reported Q4 earnings results so far have beaten analysts' expectations.

Earnings results – Caterpillar, the largest maker of construction and mining equipment, gained 4% after forecasting earnings of $7 to $9 a share, while it also posted record profit for 2012. Pfizer rose over 2% after reporting revenue of $15.1 billion, its biggest positive surprise in five quarters.

Europe

Overview

European markets retreated from recent highs, posting their biggest weekly decline of the year, as investors took profits following data showing that eurozone growth was still close to contraction. Separately, the Spanish market suffered as the country's regulator lifted a ban on shorting equities.

Spanish banks – With the end of the ban on shorting Spanish stocks, Spanish banks led a gauge of European lenders lower. Banco Santander and Bankia both dropped more than 7% over the week.

Ireland

Overview

The ISEQ traded in line with other markets, rising 0.6% overall. Largest stock, CRH, finished the week relatively flat, while Ryanair saw strong returns.

Ryanair – The airline benefitted from the momentum which followed its recently announced increase in Q3 after-tax profits. Shares in the company finished the week 3% higher.

Asia Pacific

Overview

It was a good week for Asian markets. Japan's Topix Index rose almost 3%, as a weakening yen benefitted exporters, while Hong Kong's Hang Seng Index also finished the week higher. China's stock market rallied over the week, pushing the benchmark index to its biggest weekly advance since late 2011. This was driven by the nation's manufacturing expanding last month. A profit gauge for Chinese companies is also demonstrating substantial improvement.

Bonds

Yields on US treasuries hit nine-month highs after the US payroll data showed that the economic recovery is gaining after a further increase in jobs created in January. Germany's 10-year bund yield hit its highest level since September after the unemployment rate declined more-than-expected, adding to signs that growth in the eurozone's largest economy is gathering pace. Overall, the Merrill Lynch over 5 year government bond index fell 0.2%.

Global Outlook

- Economic forecasters are looking for a modest improvement in global activity in 2013 compared to 2012, albeit one that it is still below medium-term or trend rates of growth. Regionally, the US is expected to grow by a couple of percent again this year, with many commentators pointing to the potential for higher than that. Within the eurozone, analysts see growth remaining in mildly negative territory for the coming year, but this again masks strong divergences among countries. China, which dominates the Asian growth picture, is expected to grow around 8% in 2013, similar to last year's rate. Inflation is seen to be a non-issue for investors again this year with stable low rates expected in the major regions.

- It remains most people's central case that short rates will be kept at ultra-low levels for a protracted period to come, both in the US and in other jurisdictions. In the US the continuation of extraordinary policy measures is conditional on trends in the unemployment and inflation rates but, barring a major policy reversal, overall monetary policy is expected to remain very supportive. Other central banks are expected to be either neutral in their stance or to deploy further easing measures. For the ECB, the key issue remains how peripheral economies develop over the year. Most analysts expect that the ECB will stay highly accommodative during 2013 as it continues to try to heal the peripheral debt crisis and support economic growth in the region.

- The historic low level of long-term interest rates in many developed countries remains a focus for forecasters. Many commentators speak of a 'bubble' in the bond market, albeit one that won't burst yet. Indeed most commentators still see rates rising gently over the next year. The main reason for this is that it is expected that central banks will continue to 'sponsor' a low interest rate structure until economic recovery is more durable.

- On an absolute basis investors think that equity market valuations (e.g. price/earnings ratios) are within historic ranges and, hence, are reasonably valued. Earnings growth expectations are reasonably strong for 2013, although most investors are probably already discounting a slower earnings growth number than published consensus estimates. On a relative basis, most market strategists view equities as being much better value than bonds and, additionally, the general view is that equities are also being supported by central bank liquidity and that any falls will be short-lived and will be bought by investors. Markets have started the year strongly and any setbacks would currently be seen as buying opportunities.

- Zurich Life funds are close to neutral in equities and are running only modest positions in bonds versus the manager average. Within equity sectors, the funds are underweight energy and basic materials and overweight consumer services. Geographically, the funds are underweight in Ireland and the US, slightly overweight in the Pacific region and Europe and neutral elsewhere.

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