Zurich Life
Weekly Investment News

11th February 2013

ZURICH

Global Overview

Mixed week for equities

It was a mixed week for equity markets, as eurozone political and budget worries overshadowed some upbeat global economic data and further expectation-beating corporate earnings.

US economy

Data released showed that the trade deficit narrowed more-than-forecast in December, as record exports of petroleum gave the world's largest economy a boost. However, stock inventories unexpectedly fell in December, for the first time in six months, partly as a result of the uncertainty that surrounded the fiscal cliff.

Eurozone budget

After lengthy negotiations, European leaders agreed to a seven-year budget which cuts spending for the first time. The budget figure for 2014-2020 was set at €960 billion, down from the original proposal for €1.05 trillion, and was set following the insistence of UK Prime Minister, David Cameron, on the reduced budget.

Currencies

The euro weakened against the dollar and the yen after the ECB President, Mario Draghi, signalled that further interest rate cuts in the region remain a possibility. He also commented that the euro's advance over recent weeks could hamper a recovery. The €/$ rate finished the week just shy of 1.34, a weakening of 2% over the week.

Oil

Brent crude oil rallied to a nine-month high after stronger-than-expected trade data from China signalled increased fuel demand in the world's second-biggest consuming country. The price of Brent oil finished the week at $119 a barrel, rising 1% during the week.

	Index	Year to Date Return 31.12.12 to 08.02.13		1 Week Return 01.02.13 to 08.02.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.1	2.7	-0.6	1.2
US	S&P 500	5.8	4.3	-0.2	1.6
US	NASDAQ	4.8	3.3	-0.4	1.4
Europe	FT/S&P Europe Ex. U.K.	1.7	1.7	-2.4	-2.4
Ireland	ISEQ	5.8	5.8	0.6	0.6
UK	FTSE 100	6.1	1.7	-1.4	1.1
Japan	Topix	11.3	2.6	1.6	3.7
Hong Kong	Hang Seng	2.5	0.9	-2.1	-0.3
Australia	S&P/ASX 200	6.9	4.9	1.0	2.1
Bonds	Merrill Lynch Euro over 5 year Govt.	-1.1	-1.1	-0.4	-0.4

Global Equities

United States

Overview

The S&P 500 Index finished the week relatively unchanged, despite corporate earnings topping estimates and European leaders reaching a budget agreement. The Index finished the week at a level not seen since November 2007. Almost 75% of companies that have reported Q4 earnings results so far have beaten analysts' expectations, with 67% beating top-line sales estimates.

Technology sector – The tech sector was the strongest group on the S&P 500 Index, after Apple climbed following its management saying that they want to return more cash to shareholders. Microchip Technology saw shares rise over 7% after the company posted earnings and revenue that exceeded analysts' estimates.

Europe

Overview

European stocks posted a second weekly decline as political uncertainty in Italy and Spain revived concern that the nations' austerity programmes may falter. Markets did, however, finish off their lows after rising late in the week following the EU budget agreement.

Banks – With fear that the region's austerity programmes may falter, a gauge of European bank stocks lost 0.3% over the week. Some of the biggest fallers were UniCredit, Italy's biggest lender, and Intesa Sanpaolo.

Ireland

Overview

The ISEQ bucked the trend by finishing the week 0.6% higher. Ireland's five-year bond yields fell to their lowest level in over seven years after the nation got approval from the ECB on an agreement to restructure the costs of rescuing the former Anglo Irish Bank.

Asia Pacific

Overview

Asian markets, outside of Japan, consolidated during the week as the ECB president said the euro currency's strength could hamper an economic recovery. However, Japan's Topix Index rose almost 2%. The yen jumped against the dollar after the Japanese Finance Minister said the pace of its recent weakening has been too rapid, but remained virtually flat on the week. Data from China indicated that exports from the country rose 25% in January, from a year earlier, and crude imports increased to an eight-month high.

Bonds

German government bond prices advanced over the week, with the 10-year yield dropping the most this year, after Mario Draghi's comments about the continued weakness seen in the eurozone economy. Italian bond prices fell for a second week as former Premier, Silvio Berlusconi, who opposes the current government's reforms, closed in on the current front-runner ahead of this month's elections. The Merrill Lynch over 5 year government bond index fell 0.4% over the week.

Global Outlook

- Forecasters see a modest improvement in global activity in 2013 compared to 2012, albeit one that is still below medium-term or trend rates of growth. 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.

- Short rates are expected to remain 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 scenario 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. Global equities in euro terms have gained 3.4% year to date although the market high was achieved on the third day of trading. Currently any setbacks would be seen as buying opportunities by most investors.

- 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.

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®