Zurich Life
Weekly Investment News

ZURICH

18th February 2013

Global Overview

Mixed week for equities

It was a mixed week for equity markets, as upbeat earnings and economic data in the US were overshadowed by confirmation that the eurozone and Japanese economies contracted in Q4.

US economy

Data released during the week pointed to a further improvement in the US economy. Consumer confidence increased to a three-month high, while a separate report showed manufacturing in the New York region unexpectedly expanded.

Eurozone growth disappoints

Europe's two largest economies, Germany and France, both shrank marginally in Q4 2012, suggesting the eurozone is still struggling to return to growth. The German economy contracted by 0.6% on the quarter, while France's 0.3% fall was also slightly worse than expectations. Overall, the eurozone economy shrank by 0.6%.

Currencies

The main currency story over the week was sterling experiencing its biggest decline against the dollar since June. This followed the Bank of England's Governor, Mervyn King, saying inflation would remain above the 2% target for the next two years, even with weak growth.

Commodities

Brent crude oil remained close to a nine-month high as better-than-expected earnings results were negated by poor European growth data. The price of Brent oil finished the week at $118 a barrel, relatively unchanged during the week. Gold finished the week over 3% lower, at $1,606 a troy ounce, having dipped under $1,600 for the first time since August.

	Index	Year to Date Return 31.12.12 to 15.02.13		1 Week Return 08.02.13 to 15.02.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	5.8	3.5	0.2	0.1
US	S&P 500	6.5	5.3	0.1	0.1
US	NASDAQ	5.7	4.5	-0.1	-0.1
Europe	FT/S&P Europe Ex. U.K.	3.0	3.0	0.3	0.3
Ireland	ISEQ	7.9	7.9	1.6	1.6
UK	FTSE 100	7.3	1.4	1.0	-0.7
Japan	Topix	9.6	0.4	-1.6	-2.3
Hong Kong	Hang Seng	3.5	2.2	1.0	1.0
Australia	S&P/ASX 200	8.3	6.2	1.3	1.2
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.9	-0.9	0.2	0.2

Global Equities

United States

Overview

The S&P 500 Index finished the week relatively unchanged. Before it slipped on Friday, the index had hit a five-year high, which is more than double the lowest point hit in March 2009. Almost 74% of companies that have reported Q4 earnings results so far have beaten analysts' expectations.

Merger and acquisitions – M&A activity returned to the market strongly this month. Heinz was bought by Berkshire Hathaway and 3G Capital, while Comcast took ownership of GE's NBC Universal.

Europe

Overview

European stocks halted a two-week decline as better-than-expected earnings results in the region offset a deeper-than-forecast contraction in the economy.

Earnings – Barclays Bank's shares rose 8% after it reduced annual costs by £1.7 billion through job cuts during 2012. The bank posted its first full-year loss in 20 years. Peugeot saw its shares rally almost 7% after the carmaker posted a loss that was narrower than analyst estimates.

Ireland

Overview

The ISEQ rose strongly over the week, helped by its largest stock, CRH, gaining over 3%. This followed a positive note from Goldman Sachs on the construction sector. In addition to this, Davy reiterated its outperform recommendation on CRH, citing an improvement in the outlook for US materials and reconstruction efforts from Hurricane Sandy.

Asia Pacific

Overview

Asian markets, outside of Japan, had strong returns over the week. Hong Kong's Hang Seng Index rose 1%, while Japan's Topix Index slid over 1%. Australia continued to move higher on resilient interim earnings and the ongoing attraction of dividend yields versus bank deposits. Japan's fall was partly attributed to data which showed that Japan remained mired in recession in the last three months of 2012, as the economy defied experts' expectations for a mild rebound. Japanese GDP fell 0.1% in Q4, the third contraction in as many quarters.

Bonds

Spanish and Italian bond prices rose as debt sales during the week allayed concerns that the nations may struggle to raise funds amid the politician instability in Italy. While, further to this, Spain benefitted from the ECB President's comments that the country had achieved "enormous progress" in its reforms. Both countries' spread versus German yields also narrowed over the week. The Merrill Lynch over 5 year government bond index rose 0.2% over the week.

Global Outlook

- The global growth backdrop remains reasonably supportive for risk assets with forecasters seeing a small improvement in global activity in 2013, albeit one that it is still below 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 in the major economies for a protracted period to come. 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 policy is expected to remain very supportive. Other central banks are either neutral in their stance or likely 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 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 3.5% year-to-date although this was mainly achieved in the first couple of trading days. Currently any setbacks would be seen as buying opportunities by most investors and we are probably still of that view ourselves.

- 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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