Zurich Life
Weekly Investment News

11th March 2013

ZURICH

Global Overview

Equities move higher

It was a good week for equities overall. Upbeat economic data, most notably jobs data in the US, helped push many indices close to record highs.

US jobs data

US employers added a much stronger-than-expected 236,000 jobs in February, which brought the unemployment rate to 7.7%, the lowest in more than four years. Jobs growth was strongest in the auto, building and retail sectors.

German data

German industrial production unexpectedly stagnated in January, as the region's debt crisis weighed on company spending and investment. Production was unchanged compared with December, which was below estimates for a marginal expansion.

Currencies

Sterling declined to a two and a half year low versus the dollar, while also dropping against the euro, amid concern that UK policy makers are struggling to avoid a triple-dip recession. The dollar also strengthened on the back of the upbeat jobs data, while comments from ECB policymakers about the eurozone economy shrinking hurt the euro. The €/$ rate finished the week just shy of 1.30.

Oil

Brent crude oil prices declined to their lowest level this year as flows increased through a North Sea pipeline after a five-day halt. This North Sea pipeline is approaching its targeted flow rate of 80,000 barrels a day according to officials.

	Index	Year to Date Return 31.12.12 to 08.03.13		1 Week Return 01.03.13 to 08.03.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	8.8	8.2	2.2	1.9
US	S&P 500	8.8	10.5	2.2	2.6
US	NASDAQ	7.4	9.2	2.4	2.8
Europe	FT/S&P Europe Ex. U.K.	6.8	6.8	2.9	2.9
Ireland	ISEQ	12.6	12.6	1.7	1.7
UK	FTSE 100	9.9	2.8	1.6	1.4
Japan	Topix	18.7	9.1	3.7	1.8
Hong Kong	Hang Seng	1.9	3.5	0.9	1.3
Australia	S&P/ASX 200	10.2	10.3	0.7	1.4
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.1	-0.1	0.2	0.2

Global Equities

United States

Overview

The S&P 500 Index rose over 2%, pushing it to within 1% of a record high. The adding of 236,000 jobs in February well exceeded analysts' estimates of a gain of 119,000 jobs. This has boosted optimism that the Fed's quantitative easing programme is helping the economy to improve.

Stocks – release of most recent bank stress tests was the main focus in a quiet week. Citigroup added almost 4% to its value as it sought permission to buy back shares. Goldman Sachs lost over 3% after lagging behind peers in a measure of capital strength used by regulators.

Europe

Overview

European stocks posted their biggest weekly advance in two months. Spanish bond yields continue to fall, helping to improve sentiment towards financials, via lower funding costs.

Stocks – Vodafone saw its shares surge almost 10% after Verizon Communications said it is working to resolve its partnership with the company this year. It is looking at options that range from ending its wireless venture with its European ally, to a full merger of the two phone companies.

Ireland

Overview

The Irish market tracked the rest of the world higher, rising just below 2% overall. Earnings season continued, with Grafton Group, FBD and ICG reporting results broadly in line with analyst expectations. Bank of Ireland delivered a stronger performance than analysts estimates on both margins and capital position.

Asia Pacific

Overview

It was a good week for Asian markets, with Japan's Topix Index leading the way with a gain of almost 4%. China's retail sales increased 12% in the first two months of 2013, compared with a year earlier, while industrial production rose 10%, both a little slower than expected. In Japan, the BoJ held its final meeting before a change in governor takes place. As expected, policy was left unchanged. Markets are closely following the likelihood of more expansionary monetary policy being pursued under the new BoJ leadership.

Bonds

Spanish bond prices rose for the fourth successive week as borrowing costs dropped at its latest debt sales and industrial production shrank less than economists predicted. Spanish 5 and 10-year bond yields are now at their lowest level since November 2010. Separately, German bund prices fell after strong data from the US pointed to a further improvement in the economy, boosting investor sentiment. The Merrill Lynch over 5 year government bond index rose 0.2% over the week.

Global Outlook

- The general global growth backdrop remains reasonably supportive for risk assets with a small improvement in global activity likely in 2013, albeit one that is less powerful than trend rates of growth. For example, the US is expected to grow by around 2% again this year, with many commentators pointing to the potential for higher than that. Analysts see eurozone growth remaining in mildly negative territory this year but this again masks 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.

- Short rates are likely to stay at ultra-low levels in the major economies for a protracted period to come. In the US the continuation of very loose monetary policy is now 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 will ease policy further. 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.

- Many commentators speak of a 'bubble' in the bond market although most still see rates rising gently – rather than significantly – 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. So the recent moves up and down in long-term rates in Germany and the US should not be a major surprise. Italian bond spreads have risen modestly as a result of the political uncertainty there but the knock-on impact to other markets is limited for now. However, with positive investor sentiment on the periphery now quite high, these markets are more vulnerable to bad news flow and setbacks would not be unexpected.

- Equity market valuations are within historic ranges and, hence, are reasonably valued. Earnings' expectations are reasonably strong for 2013, although most investors are likely 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 8% so far this year – similar to 2012's start – with the Dow Jones notably making a new high. Positive sentiment is pretty strong in general and currently any market setbacks are likely to 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 Europe and the UK, slightly overweight in the Pacific region and broadly neutral in the US and Ireland.

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