Zurich Life
Weekly Investment News

2nd April 2013

ZURICH

Global Overview

Equities rise
Equity markets rebounded last week as good economic data helped improve investors' confidence, while concern over Cyprus' debt worries eased.

US economic data
There was good data on durable goods' orders and house prices last week. Durable goods' orders rose a better-than-expected 6% last month, while the S&P/Case-Shiller index of house prices showed its biggest increase since 2006. Q4 GDP data was sluggish, with the economy growing at an annual rate of 0.4%; this, however, was broadly in line with expectations.

Commodities
The Brent crude oil price rose over 2% on the week, closing at $110 a barrel. Good data, including the GDP and the durable goods orders, were behind the gain. Gold gave some back of its previous week's gains as the reopening of banks in Cyprus eased immediate concern that Europe's debt crisis will deepen, reducing the precious metal's appeal as a store of wealth.

Currencies
The euro weakened against the dollar following the upbeat data out of the US. The €/$ rate finished the week at 1.28, a weakening of 1.2%. Elsewhere, the pound sterling had its biggest quarterly drop against the dollar as the UK economy contracted in Q4, fueling concern about an unprecedented triple-dip recession.

	Index	Year to Date Return 31.12.12 to 29.03.13		1 Week Return 22.03.13 to 29.03.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	8.9	9.8	0.6	1.7
US	S&P 500	10.0	13.3	0.8	2.0
US	NASDAQ	8.2	11.4	0.7	1.9
Europe	FT/S&P Europe Ex. U.K.	4.9	4.9	-0.6	-0.6
Ireland	ISEQ	16.5	16.5	0.8	0.8
UK	FTSE 100	8.7	4.7	0.3	1.3
Japan	Topix	20.3	13.9	-0.4	1.1
Hong Kong	Hang Seng	-1.6	1.2	0.8	2.0
Australia	S&P/ASX 200	6.8	10.3	0.0	0.8
Bonds	Merrill Lynch Euro over 5 year Govt.	0.4	0.4	-0.3	-0.3

Global Equities

United States

Overview
The S&P 500 Index recorded a gain of close to 1%, pushing it to a record high close, eclipsing its previous record closing high hit in October 2007. Over the first quarter, the index recorded a robust gain of 10% overall.

Stocks – Shares in biotechnology companies were strong on the week, especially Biogen Idec, which jumped over 8%, to an all-time high, after it obtained a favourable label from the Food and Drug Administration for its new multiple sclerosis drug. Elsewhere, McGraw-Hill also rose 8% after announcing a $500 million share buyback.

Europe

Overview

European stocks were little changed this week as uncertainty in Cyprus and the political deadlock in Italy overshadowed better-than-estimated U.S. and German economic data.

Portuguese banks – Portuguese lenders slumped as Moody's Investor Service affirmed the country's junk-debt rating with a negative outlook, saying the economy will likely undergo a contraction this year, a year later than expected. Espirito Santo, Portugal's biggest publicly-traded bank, fell 12%, while Banco Comercial Portugues, the second-largest, lost 10%.

Ireland

Overview

The Irish market finished the week almost 1% higher, with food companies Glanbia, Kerry and Aryzta all performing strongly on the week.

Asia Pacific

Overview

Asian markets were mixed, with Hong Kong's Hang Seng Index rising almost 1%, while Japan's Topix Index retreated marginally. In euro terms, however, both markets gained as their currencies strengthened versus the euro. Asian currencies had their best week in over two months as optimism grew on speculation that the continued economic recovery in the US will boost demand for the region's exports. The Hong Kong gains were supported by Chinese banks, after two of the "big four" reported 2012 earnings largely in line with expectations.

Bonds

Italian bond prices fell after the leader of the Democratic Party, Pier Luigi Bersani, ruled out the possibility of creating a broad coalition following a meeting with rival politicians. Elsewhere, worries about the Cypriot banking system hurt sentiment in peripheral European bond markets. The Merrill Lynch over 5 year government bond index fell 0.3% over the week.

Global Outlook

- Some of the more recent economic data has been slightly weaker-than-forecast but the economic backdrop is still reasonably supportive for risk assets. For example, the US is expected to grow by around 2% again this year, hampered a little by fiscal measures, but a stabilising housing market may help consumer confidence. Analysts see eurozone growth remaining in mildly negative territory this year but this again masks divergences among countries and most economists see positive growth resuming quickly thereafter. 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.

- US and European economies continue to require loose monetary policies and, for that reason, short rates are likely to stay at ultra-low levels for a protracted period to come. The Fed has made policy conditional on both the unemployment and inflation rates and, barring a major reversal, policy is expected to be very supportive. Other central banks are neutral in their stance or will ease further. For the ECB, the key issue is how the periphery develops 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, with recent speculation focused on additional policy measures by the ECB to support the supply of credit to firms.

- As long as central banks continue to 'sponsor' a low interest rate structure the so called 'bond bubble' in Germany and the US is unlikely to burst. Italian bond spreads have risen by about 1% as a result of the political uncertainty there but the knock-on impact to other markets has been very limited so far. Similarly, the immediate impact of the Cyprus situation has been very modest, albeit both situations have the potential for additional negative impact, if only in the short term. Positive investor sentiment on the periphery's now quite high and this always makes such situations more vulnerable to bad news flow; setbacks would not be unusual.

- While equity valuations have risen a little they are still within historic ranges and markets are thus seen as reasonably valued. Meanwhile, upcoming corporate earnings from US companies will be a good test of where investors' profit expectations for this year are positioned. 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 9% so far this year – similar to 2012's start – with the Dow Jones recently 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 currently 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 the UK, slightly overweight in the Pacific region and Japan and broadly neutral in the US, Europe and Ireland.

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®