Zurich Investments

An update to the Investment Outlook 2016

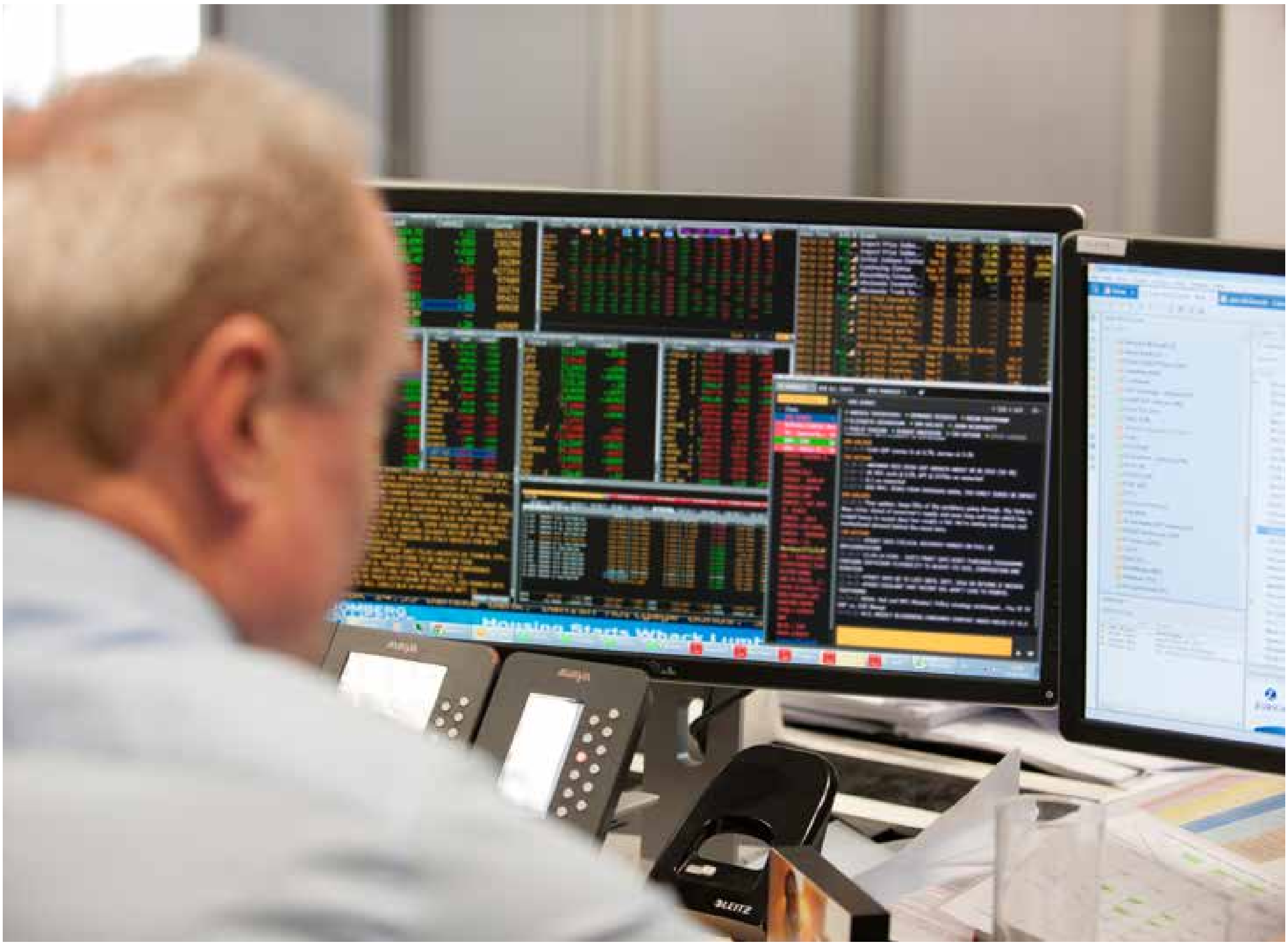
Volatility to continue

Despite economic uncertainties, relative value still favours equities

Since our last investment outlook in January, equity markets have been subjected to increased volatility due to a confluence of events. These include economic growth concerns in China, severe oscillation in the price of oil, negative interest rates in some regions and, more latterly, Brexit. Investors are also focussed on the US interest rate cycle and the likely timing of the next rate rise.

Economic uncertainty has resulted in many equity markets struggling in the first half of the year; although the US and UK markets have been notably resilient in local currency terms. Equities remain attractively valued compared to bonds and cash.

Long-term eurozone bond yields reached fresh all-time lows towards the end of June. Despite the lack of value, bonds have been supported by the tailwind of aggressive ECB monetary policy action.



Global growth expectations have been reduced

- Global growth is likely to have slowed down from 2015 levels
- Monetary policy is still accommodative globally and indeed a number of central banks are likely to continue to ease policy further
- UK growth is likely to be negatively affected by Brexit
- Economic growth in the eurozone could be held back by contagion effects following the UK referendum result.

Upside risks to outlook

- Global growth bounces, buoyed by central bank action
- Commodity prices continue to rise, allaying deflationary fears and supporting many emerging markets
- Further supportive monetary policies in Europe and Asia
- Further interest rate increases in the US are interpreted as a vote of confidence in the economy and a welcome return to normality
- Additional fiscal expansion to stimulate growth.

Downside risks to outlook

- Economic growth slows in the Eurozone due to Brexit contagion
- Policy tightens in the US; how will markets react?
- Political and structural risks in Europe increase; polarisation in US politics
- Further Chinese devaluation of the yuan would be a further drag on growth and inflation in the rest of the world
- Geo-political risks remain with the ISIS conflict and the migration crisis in Europe.

> "Economic growth in the eurozone could be held back by contagion effects following the UK referendum result."

Equities are still the more attractive asset class on relative valuation grounds

- Equity markets remain attractively valued versus cash and bonds but have become more expensive on a price/ earnings multiple basis
- Consensus expectations for earnings growth in 2016 have now dropped to c.2.5% from c.7.6% at the beginning of the year
- The US market has been in a trading range for the last 12 months. Although it is close to its highs, it will need some good news on the economic or earnings front to make further significant progress
- Structural issues remain the backdrop in Europe; Asia's underperformance seems to have ceased and its markets are starting to look more attractive now
- The dividend yield on pan-European equities at 3.8% offers an income uplift compared to existing corporate and government yields.

Ultra-low bond yields – an attractive long-term investment?

- ECB policy rates should remain low for an extended period of time. Subdued economic growth and low inflation are the main reasons for this
- Valuations, however, are not supportive of fixed income as a long-term investment. Further gains in bonds prices so far in 2016 have been mainly due to quantitative easing by the ECB. Yields could begin to pick up slightly in the second half of the year
- The US central bank is no longer expected to raise interest rates in 2016. The trajectory of future increases will be slow
- Global inflation, while remaining low by historical levels, may see a slight pick-up due to rising commodity prices and some upside wage pressures.

Low intensity currency war continues

- No major country has the inflation justification for actively pursuing a stronger currency
- Currency weakness remains a preference for the eurozone as the current ECB's monetary policy is no longer effective
- Japan's preference for a weaker currency is offset by its strong external position and the limits of the global 'zero sum game' of currency manipulation
- The US dollar's relative strength reflects the comparative strength of its economy plus the actual and potential interest rate support compared to 'zero rate' currencies.

"The US market has been in a trading range for the last 12 months. Although it is close to its highs, it will need some good news on the economic or earnings front to make further significant progress."

Performance to 30 June 2016

The benefits of diversification

Annual management charges (AMC) apply. The fund returns shown are net of the AMC deducted by each provider in their unit prices. This will vary for each provider, and any difference will impact the relative performance of the funds shown. The fund returns are based on an investment in the funds and do not represent the returns achieved by individual policies linked to the funds. These fund returns may be before the full AMC is applied to a policy. The actual returns on policies linked to the specified fund will be lower because of the effects of charges and in some cases a higher management charge.

*Fund performance from underlying fund

Source: Financial Express as at 01/07/2016

Warning: Past performance is not a reliable guide to future performance.
Warning: The value of your investment may go down as well as up.
Warning: Benefits may be affected by changes in currency exchange rates.
Warning: If you invest in this product you may lose some or all of the money you invest.

An active approach to investing money

At Zurich we aim to deliver long-term consistent investment performance.

We believe that people need people to look after their money so we take a 'hands-on', active approach to selecting the right assets and the right stocks to fit investment portfolios.

Financial markets will always give opportunities to good active managers to deliver better performance so we position ourselves to capture that.

Our investment team, based in Blackrock, Co. Dublin, is responsible for funds under management of approximately €19.4 billion, of which pension assets amount to €9.5 billion.

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*Source: Zurich Life, 31 March 2016

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For more information, visit the fund section at **zurichlife.ie**

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