Zurich Life
Weekly Investment News

20th May 2013

ZURICH

Global Overview

Equities rally

Equity markets largely maintained their upward momentum, closing close to record peaks in many areas. Japan led the way, once again, with the Topix index adding another 3.5% for a year-to-date rise of 46% in local currency terms. Hong Kong, as it has been all year, was the laggard, falling 1%, and its year-to-date return is now a very modest 2%.

Mixed US data

US data threw up a mixed bag of results on the week. Weekly jobless claims and regional manufacturing surveys were disappointing, while retail sales showed an unexpected increase. Friday's University of Michigan consumer confidence index showed levels reaching a six-year high, vital for the health of the overall US economy.

Eurozone economy

The first quarter GDP numbers for the eurozone did not make for pretty reading, with the overall figure down 0.2%. Within that, Italy and Spain both fell 0.5%, France fell 0.2% and Germany rose a very modest 0.1%. Overall, this represents the longest recession since the advent of the single currency.

Currencies

The US dollar continued its recent upward momentum, closing the week close to its strongest level in nearly three years against other major currencies. The €/$ rate finished the week at 1.28, a weakening of over 1%. The €/£ rate was unchanged on the week.

Commodities

The gold price continued its fall, losing another 5% on the week as financial investors concentrated on equities. The strength of the US dollar also acted as a negative for gold. The price of Brent crude oil edged up over the week, closing close to $104 per barrel.

	Index	Year to Date Return 31.12.12 to 17.05.13		1 Week Return 10.05.13 to 17.05.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	16.7	16.3	1.8	2.3
US	S&P 500	16.9	20.2	2.1	3.2
US	NASDAQ	15.9	19.2	1.8	3.0
Europe	FT/S&P Europe Ex. U.K.	10.0	10.0	1.0	1.0
Ireland	ISEQ	17.9	17.9	1.0	1.0
UK	FTSE 100	14.0	9.5	1.5	1.5
Japan	Topix	45.8	26.3	3.5	3.3
Hong Kong	Hang Seng	1.9	4.6	-1.0	0.1
Australia	S&P/ASX 200	11.4	7.4	-0.5	-2.0
Bonds	Merrill Lynch Euro over 5 year Govt.	3.9	3.9	0.4	0.4

Global Equities

United States

Overview

US indices moved onwards and upwards, recording their fourth straight week of gains. Cyclical stocks were in the vanguard, with financials outperforming the other major sectors on the index.

Movers – Cyclical stocks led the way in the US and, as in Europe, financial stocks were among the best performers on the week. State Street, Goldman Sachs and JPMorgan Chase all enjoyed a strong week. Apple's weakness continued, the stock losing nearly 5% on fears that Samsung is continuing to take market share, following very positive reviews of Samsung's latest phone.

Europe

Overview

European stock markets continued their upward march, with both continental and the UK markets closing at, or close to, five-year highs.

Movers – UK banking stocks led the FTSE100 higher on Friday, the index closing at its highest level for five years. RBS led the way, rising nearly 6%, while Lloyds closed for the first time above the UK government's break-even price. Car stocks jumped in Europe, on better sales figures for the month of April. Renault, Peugeot and Daimler were all up strongly.

Ireland

Overview

The Irish market enjoyed a week of solid growth, rising 1%.

Ryanair – Ryanair announced its full-year results to 31st March 2013 this morning. It showed after-tax profits of €569 million, a rise of 13% on the previous year. Revenues were also up 13%, to €4.88 billion. It expects profit for the coming financial year to show a rose of 5%.

Asia Pacific

Overview

The Japanese equity market continued its turbo-powered ascent, adding another 3.5% to an already strong year-to-date number, helped by a further weakening of the yen against the US dollar. The Australian dollar hit its lowest level in nearly a year, hurt by falling commodity prices, the slowdown in Chinese growth and the recent fall in interest rates.

Bonds

Eurozone bond prices rose last week as economic data confirmed the ongoing struggle facing the single currency area. Both core and peripheral country bonds have been strong of late, the core in response to a very weak overall eurozone economy, the periphery as a result of the search for yield (which has had the effect of driving down peripheral yields substantially). Overall, the Merrill Lynch over 5 year government bond index finished the week 0.4% higher.

Global Outlook

- The broad economic backdrop in the main economies remains 'ok' for risk assets and recent data doesn't alter that general conclusion. The US is still expected to grow by around 2% again this year, hampered a little by fiscal measures but an improved housing market may help consumer confidence and corporate investment has room to grow. Eurozone growth is likely to stay in mildly negative territory in 2013 but most economists expect positive growth to resume thereafter. China, which dominates the Asian growth picture, should still grow strongly but probably less than the 8% initially forecast. Goods' inflation globally remains modest and recent readings for consumer prices in the US and Europe have been weak.

- Given the growth and employment backdrop, a very loose monetary policy is regarded as essential and, therefore, short rates are likely to stay at ultra-low levels for a protracted period to come. Barring a major policy reversal, the Fed will keep policy easy until the labour market has improved further. Other central banks are neutral in their stance or will ease further. As regards the ECB, after the most recent rate reduction analysts expect that it will stay highly accommodative during 2013 and, as previously discussed, it will likely deliver further policy initiatives.

- Historically low long-term interest rates in many countries will likely remain for as long as central banks continue to sponsor a low interest rate structure. Meanwhile, within EU peripheral markets, investors have absorbed potentially negative developments (e.g. Italian politics and the Cyprus debacle) with very limited impact, either directly or indirectly. Confidence in the ECB and policymakers remains very high but, nonetheless, we wouldn't be surprised to see some setbacks over the course of the year.

- Equity markets are within historic valuation ranges, albeit now closer to the top of the recent range. Investors are still well disposed towards risk assets in general as evidenced by the broad S&P US equity index recently attaining a new high. The current US corporate earnings season has been uninspiring but hasn't deterred investors' appetite. Most market strategists see equities as being much better value than bonds and, additionally, the general view is that equities are being supported by central bank liquidity. Global equities have gained 16% so far this year, a very strong return given the economic backdrop. Setbacks have been modest to date and most investors would buy any dips that might occur.

- Zurich Life funds are close to neutral in equities and have modest positions in bonds versus the manager average. The funds are underweight energy and basic materials stocks and overweight consumer services. Geographically, the funds are underweight the UK and Europe, neutral in the Pacific region, neutral to slightly overweight in the US and Ireland and overweight Japan.

Zurich Life Assurance plc
Zurich House, Frascati Road, Blackrock, Co. Dublin, Ireland.
Telephone: 01 283 1301 Fax: 01 283 1578 Website: www.zurichlife.ie
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