

Global Overview

Equities retreat

Equity markets continued the recent run of losses as uncertainty surrounding the possibility of reduced stimulus measures in the US remains.

International Monetary Fund

In its annual assessment of the US economy, the IMF said it sees the Federal Reserve maintaining large bond purchases until at least the end of this year. It also urged the central bank to carefully manage its exit plan to avoid disrupting financial markets.

US data

There was further good data from the US last week, possibly increasing the chances of reduced monetary measures from the Fed. Jobless claims declined for another week, while retailers announced better-than-expected increases in sales figures.

UK economy

Construction data for April was weaker-than-expected, causing sterling to weaken from a four-month high versus the dollar. UK construction volume fell 6.5% in April, compared with a month earlier.

Currencies

The dollar weakened over the week, caused partly by economic data which might result in reduced stimulus measures. The €/£ rate finished the week at 1.33, a strengthening of 1%.

Commodities

Oil prices rose for another week, on the back of continued tensions in Syria, home to roughly a third of the world's oil supply. Brent crude oil closed just below \$106 per barrel, a rise of almost 2% on the week. Gold prices finished the week fractionally higher.

	Index	Year to Date Return 31.12.12 to 14.06.13		1 Week Return 07.06.13 to 14.06.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	11.0	8.0	-1.1	-1.4
US	S&P 500	14.1	12.7	-1.0	-2.0
US	NASDAQ	13.4	12.1	-1.3	-2.3
Europe	FT/S&P Europe Ex. U.K.	4.4	4.4	-1.3	-1.3
Ireland	ISEQ	15.3	15.3	-1.7	-1.7
UK	FTSE 100	7.0	2.2	-1.6	-1.6
Japan	Topix	22.9	12.0	0.0	2.6
Hong Kong	Hang Seng	-7.4	-8.6	-2.8	-3.7
Australia	S&P/ASX 200	3.1	-6.2	1.1	0.9
Bonds	Merrill Lynch Euro over 5 year Govt.	1.7	1.7	0.0	0.0

Global Equities



United States

Overview

Worries surrounding quantitative easing were behind markets falling for their third week in four, last week. Investors are speculating whether the Fed will reduce stimulus efforts after its next meeting, on 18-19 June.

Sectors – Financials were the weakest stocks last week, falling over 2%, while energy and technology companies fell sharply also. American Express fell over 6%, its biggest decline in over a year, after Barclays lowered its rating on the stock.



Europe

Overview

European stocks posted their fourth successive week of losses, the longest streak in a year, on the back of ongoing concerns surrounding the US stimulus measures.

Severn Trent – The water utility company slid 15% as a bidding group, led by a Canadian company, Borealis Infrastructure Management, abandoned a £5 billion plan to take over the company.



Ireland

Overview

The Irish market finished the week almost 2% lower overall.

Elan – The pharmaceutical firm, which is the subject of a hostile bid from US firm Royalty Pharma, warned that the offer for the company could lapse if a number of resolutions at the Irish company's EGM are passed on Monday 17th.



Asia Pacific

Overview

Asian stocks, outside of Japan, fell for the fifth week, the longest streak in two years. Hong Kong shares fell almost 3% on concern that growth in the Chinese economy is slowing. Minutes of the Bank of Japan's recent meeting showed that one of the central bank's board members said the BoJ should specify a two-year limit for its unprecedented monetary easing to help quell bond-market volatility.

Bonds

Spain's credit rating was affirmed at BBB- by S&P, which said that the country's commitment to the implementation of a comprehensive fiscal, structural agenda remains strong. However, S&P's outlook on the long-term rating remains negative, which shows potential for a further downgrade if the current reforms fail to work. Overall, the Merrill Lynch over 5 year government bond index finished the week unchanged.

Global Outlook

- The economic backdrop in the main economies remains 'ok' for risk assets. In any event, most investors think that any economic weakness would produce a policy response. Growth in the US is sub-par by historic standards but, importantly, it is stable, which has reassured investors considerably. Brighter spots, such as the housing market, have also helped in this regard. Eurozone growth is more problematic but the relative stability in the periphery has been an important offset to a weaker economic backdrop. Expectations for Chinese growth, which dominates the Asian growth picture, have been pared back and investors are reasonably cautious of the region for now. Goods' and wage inflation globally remain modest and recent readings for consumer prices in the US and Europe have been weak.
- Given that backdrop, a very loose monetary policy is regarded as essential for several of the major regions. Therefore, short rates are likely to stay at ultra-low levels for a protracted period to come. Nonetheless, investors are becoming more sensitive to any indicators that the Fed will 'taper' the extent of its policy generosity. Other central banks are generally neutral in their stance. As for the ECB, analysts expect that it will stay highly accommodative during 2013 and, as previously discussed, it will likely deliver further policy initiatives, albeit the hurdle for these may be higher than initially thought.
- Historically low long-term interest rates in many countries will likely remain as long as central banks sponsor a low interest rate structure. Low inflation globally reinforces the likelihood that this situation persists. Thus, the recent modest rise in long-term US and German interest rates is not likely to be the start of an immediate large scale rise in rates; we expect these rates to fall back over the coming weeks. Meanwhile, confidence in the ability of the ECB and policymakers to manage the peripheral debt situation currently remains very high. Some might argue that this confidence borders on complacency but, to date, the turn-around in investors' attitudes has been impressive.
- Equity markets are within historic valuation ranges – albeit now closer to the top of that recent range. Most market strategists see equities as being much better value than bonds and, additionally, the general view is that equities are also being supported by central bank liquidity. The recent dramatic volatility in Japanese equities illustrates how corrections can easily occur in strongly trending markets. Nonetheless, most investors remain inclined to buy any setbacks that may happen there or in other markets. While the S&P US equity index is only a couple of percent below a recent high, other markets have been slightly weaker recently and we anticipate that the current setback can run a little further.
- 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 and neutral to slightly overweight in the US, Ireland and Japan.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

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