ZURICH

Bumpy road ahead?

Investment Outlook 2022

As we enter 2022, we continue to prefer equities to other asset classes, such as eurozone government bonds and cash. This preference is predicated on the enduring relative valuation thesis, positive corporate earnings expectations, and the positive global growth trajectory. Whilst the latest bout of COVID induced volatility should subside in time, markets are finely poised with shifting inflation expectations and the potential for a policy misstep contributing to a possible bumpy road ahead.

2021 Review

- The strong recovery in equity markets witnessed since March 2020 continued throughout 2021, with global stock markets finishing the year up 32%.
- Geographically, the US and the UK have been the best performing regions. There was some sector rotation over the course of the last year, as more value oriented companies made up some lost ground on their growth counterparts. However, this trend reversed once again throughout the second half of the year.
- Overall, energy was the best performing sector (+53%) as firms tracked the recovery in oil prices, albeit from record lows. Technology (+40%), real estate (+39%), and financials (+38%) also outperformed, whilst more 'bond proxy' sectors such as consumer staples, utilities and telecom companies lagged as bond yields ticked upwards.
- Fixed Income instruments, particularly longer dated sovereign debt, have been negatively affected by rising inflation expectations. Global interest rates remained at close to record lows throughout 2021, as the recovery continues after the shock of the COVID-19 induced recession.
- Most commodities enjoyed a stellar run over the last 12 months, as the economic rebound saw prices move sharply higher. Gold was an outlier across the major commodities, experiencing price declines over the last year as demand for safe haven assets fell however this was offset for Euro investors as the USD strengthened through 2021

Equities Outlook

- We remain positive on equity markets. Equity valuations are high versus history but are still attractive on a relative basis versus other asset classes. Equities as an asset class have benefitted from monetary and fiscal stimulus over the last number of years. Therefore, we remain vigilant to the effects of the removal of monetary stimulus in 2022. However, it is our view that US central bank policy will remain supportive of general economic growth and risk assets.
- Our bias from a geographical perspective is towards Europe, the UK, and Japan, whilst we are more cautious of the Asia ex-Japan region currently. Within the US, we do have strong conviction on specific sectors in the world's largest market – specifically technology and consumer discretionary. On a sectoral basis, we continue to see opportunities within the technology and consumer discretionary sectors, as short-term prospects combine with positive longer term structural shifts in the global economy.
- We remain more cautiously positioned in the more 'bond proxy' sectors such as telecommunications, healthcare, consumer staples. Certain subsectors, for example more cyclical components within the US technology sector, will see divergence throughout 2022 and a focus on both sector and stock selection will be imperative across our equity portfolios.

Fixed Income Outlook

- As the major central banks look to 'normalise' policy our more cautious outlook on sovereign bonds persists. Whilst inflation proved to be higher and more stubborn than forecast, it is likely that we are close to the peak year-on-year growth levels as supply chain bottlenecks ease further and pent up consumer demand is sated.
- Interest rates are not expected to increase to very high or restrictive levels, and rates are expected to top out below the perceived neutral interest rate of 2.5%, which could lead to a shorter tightening cycle than has been experienced in the past.
- The US treasury yield curve could take on a 'bear flattening' shape from this point, as short-term rates rise in expectation of ongoing rate increases from the Federal Reserve, while longer dated bond yields rise more slowly as investors discount a return to lower inflation and moderate interest rates as monetary policy normalises.
- Real yields, which take into account inflation, look set to remain negative for the year ahead. We envisage that the road ahead to tighter monetary policy conditions could well be bumpy. Therefore, our stance is to be underweight sovereign bonds across our multi-asset portfolios, with the remaining bonds at below average duration.

For the Bulls

1. Global growth moves higher and surpasses pre-COVID levels
2. The Federal Reserve and Biden administration both exceed investor expectations
3. Inflation fears subside
4. Increasing vaccine efficacy diminishes the effect of COVID

For the Bears

1. Geopolitical fears are realised at a number of global flashpoints
2. Inflation persists whilst growth flatlines, producing stagflation
3. Equity market sentiment becomes extended
4. A policy misstep materialises as global central bank policy diverges

Calendar Year Performance Since 2011

The benefits of diversification

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Prisma 2	2.6	1.7	3.1	-1.3	0.3	1.6	1.0	3.3			
Prisma 3	7.6	3.4	8.3	-2.4	2.2	4.1	2.6	7.1			
Prisma 4	16.8	6.9	17.8	-4.6	5.7	8.5	4.9	14.2			
Prisma 5	23.9	10.9	26.5	-6.2	7.7	11.3	6.2	16.0			
Prisma Max	25.3	13.7	28.1	-5.4	8.7	9.8	7.9	7.4			
Active Asset Allocation	18.6	7.4	19.0	-4.9	5.9	8.1	4.9	14.6	3.9	10.5	-1.8
Balanced	18.0	12.3	19.8	-3.6	6.3	6.7	10.0	15.3	16.1	13.1	-2.0
Performance	23.0	13.9	24.1	-4.3	8.3	6.9	10.9	16.1	17.2	12.6	-2.4
Dynamic	24.6	14.4	26.9	-4.9	8.8	7.4	11.8	15.8	19.0	13.1	-3.4
Cautiously Managed	11.5	7.1	11.8	-2.6	3.9	5.1	6.3	18.6	6.7	12.3	3.6
5★5 Americas	35.5	23.3	33.6	1.5	2.1	14.1	11.8	28.8	24.7	10.2	-0.9
5★5 Asia Pacific	9.6	8.9	21.8	-10.8	23.8	10.4	5.7	9.2	2.6	16.7	-8.5
5★5 Europe	24.2	3.1	31.5	-12.2	16.4	4.8	17.5	8.6	23.6	28.8	-8.0
5★5 Global	29.1	18.4	28.7	-6.3	11.6	4.5	13.3	13.3	17.6	16.2	-6.4
Global Targeted Return (Invesco)	-1.1	-2.1	2.8	-5.2	-0.1	2.1	1.6				
Active Fixed Income	-3.8	3.2	5.4	0.4	-1.1	4.7	1.0	20.3	2.4	12.8	6.5
Asia Pacific Equity	10.3	5.8	20.5	-8.7	21.8	11.4	0.8	10.5	1.6	19.6	-9.8
Long Bond	-6.6	8.5	11.5	1.3	-1.7	6.3	1.8	28.2	1.5	14.6	6.3
Cash	-0.9	-1.0	-0.8	-0.9	-0.8	-0.8	-0.5	-0.3	-0.4	-0.5	0.4
Irish Equity	16.7	5.0	37.0	-19.2	8.7	-0.8	38.5	16.0	33.7	19.6	5.5
Dividend Growth	35.1	-16.1	28.5	-10.8	3.1	17.3	6.0	18.0	20.1	18.9	0.0
International Equity	26.1	15.4	28.9	-5.5	9.3	10.0	10.7	17.7	20.6	13.5	-3.7
Eurozone Equity	23.4	5.0	26.0	-12.1	14.3	5.0	11.7	4.3	25.5	24.0	-12.9
Indexed Australasia Property	13.4	-16.7	17.3	2.7	3.5	11.0	2.4	26.1	-10.3	34.5	-14.9
Indexed European (Ex-UK) Property	8.6	-9.3	23.8	-6.6	14.4	3.9	16.6	20.6	3.8	24.5	-13.2
Indexed Global Energy and Metals	38.7	-11.4	12.4	-4.1	-5.7	21.5	-20.2	-12.4	-5.3	-2.9	0.5
Gold	3.6	13.0	19.7	3.0	-2.6	12.3	-2.3	12.8	-31.4	3.4	14.0
Indexed Inflation Linked Bond	6.0	2.3	6.0	-2.2	0.6	3.4	0.1	4.6	-4.4	10.3	-1.8
Protected 70	17.9	4.1	17.7	-6.1	4.7	1.4	6.4	10.4	13.1	7.5	-6.5
Protected 80	12.4	1.3	10.4	-5.1	2.2	-0.3	4.2	7.1	9.3	4.4	-5.6
Global Corporate Bond (J.P Morgan)	-2.8	6.8	9.4	-5.2	3.5	3.2	-0.7	7.2	-0.2		
Global Government Bond (J.P Morgan)	-4.1	4.9	3.9	-1.0	0.1	1.3	0.6	8.1	-0.8		
Emerging Market Opp (J.P Morgan)	0.8	8.7	27.6	-9.7	28.6	17.1	-11.5	12.5			
Dynamic Diversified Growth (Blackrock)	3.6	7.4	9.2	-4.4	6.8	-2.5	-1.7	5.1	5.9	6.4	
American Select (Columbia Threadneedle)	30.9	14.9	36.2	-1.3	6.3	17.5	9.9	21.3	24.5	15.0	5.3
European Select (Columbia Threadneedle)	26.2	9.3	33.7	-11.0	13.9	0.1	13.9	12.9	15.7	26.4	-1.1
Global Select (Columbia Threadneedle)	22.3	11.1	38.9	-7.5	14.1	9.0	12.1	17.1	20.0	13.8	-5.5
Indexed TopTech 100	39.5%	34.6	41.0	3.9	15.9	9.8	21.4	34.7	29.9	15.5	6.2

Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund.

Source: Zurich Life as at 04/01/2022.

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.

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